

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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In re	:	
	:	Chapter 11
SEARS HOLDINGS CORPORATION,	:	
	:	Case No. 18-23538 (SHL)
Liquidating Debtor.	:	
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DECLARATION OF ESTEBAN LAMADRID

I, Esteban Lamadrid, make the following Declaration pursuant to 28 U.S.C. § 1746:

1. I am a certified and licensed general real estate appraiser in Puerto Rico. I have been an appraiser for 25 years and am the founder of Lamadrid Appraisal Group. Previously, I was a co-founder, along with Pedro Pons, of Pons & Lamadrid Appraisers. Following the retirement of Mr. Pons in late 2020, Pons & Lamadrid closed its practice. I have continued to work as an appraiser with my new firm, Lamadrid Appraisal Group. I perform my appraisal work in compliance with the Uniform Standards of Professional Appraisal Practice and the Code of Ethics of the Appraisal Institute, of which I am a member.

2. Korein Tillery LLC, counsel for the Relator in the case captioned *United States ex rel. Garbe v. Kmart Corp.* (No. 12-cv-881, U.S. District Court, Southern District of Illinois), retained my prior firm Pons & Lamadrid on March 6, 2019 to appraise real property known as Sears Distribution Center #8975, PR-176 Km 0.5, Cupey Bajo, San Juan, Puerto Rico (the "Puerto Rico Property").

3. Pons & Lamadrid had previously appraised the same property, having worked with the firm of Cushman & Wakefield to complete an appraisal report of the Puerto Rico Property in January 2017 for Sears Holdings Corporation.

4. The purpose of Pons & Lamadrid's appraisal assignment in 2019 was to establish the market value (fee simple interest) of the Puerto Rico Property as of the inspection date.

5. On March 15, 2019, I inspected the Puerto Rico Property, which consists of a large distribution warehouse and a small outlet store.

6. On April 5, 2019, Pons & Lamadrid completed its appraisal report of the Puerto Rico Property (the "Appraisal Report"). A true and correct copy of the Appraisal Report is attached to this Declaration as **Exhibit 1**, which includes (at 83-85) a list of my qualifications.

7. The Appraisal Report concluded that the Puerto Rico Property had some deferred maintenance items resulting from hurricane damage sustained in September 2017, but overall, that the property was both functional for its intended use at the time and well prepared for intensive and effective distribution operations.

8. The Appraisal Report further assigned (at 64-65 and 74-75) three different values to the Puerto Rico Property: (i) an "as if leased" value of \$22,300,000; (ii) an "as if vacant" value of \$16,600,000; and (iii) a reconciled "as is" market value of \$22,100,000.

9. Given the general use of the Puerto Rico Property as of its inspection date, the Appraisal Report determined the "as is" market value of \$22,100,000 to be the most accurate valuation of the property. The "as is" market value of real property is an estimate of the property's market value in its current physical condition, use, and zoning as of the appraisal date.

10. Pons & Lamadrid's fee for this appraisal was \$7,500. That compensation has no effect on the substance of my opinions or any testimony that I might offer in this litigation.

I declare under penalty of perjury that the foregoing is true and correct.

Dated: March 13, 2023



Esteban Lamadrid, MAI

Exhibit 1

APPRAISAL REPORT
Sears Distribution Center #8975
PR-176 Km 0.5 Cupey Bajo
San Juan, Puerto Rico

Prepared For

Mr. Peter Rocque, Esq.
Korein Tillery Law Practice
St. Louis, MO

Prepared By

Pedro A. Pons, MAI, SRA
State Certified General Real Estate
Appraiser
Certificate No. 24GC
State License No. 91EPA

Esteban Lamadrid, MAI
State Certified General Real Estate
Appraiser
Certificate No. 186GC
State License No. 713EPA

Effective Date “As Is”

March 15, 2019

Report Date

April 5, 2019

April 5, 2019

Mr. Peter Rocque, Esq.
Korein Tillery Law Practice
St. Louis, MO

Re: Appraisal Report
Sears Distribution Center #8975
PR-176 Km 0.5 Cupey Bajo
San Juan, Puerto Rico

Dear Mr. Rocque, Esq:

Pursuant to your request, we formed an opinion of the market value fee simple interest in the referenced property. The Sears property is formed by a 302,928 square foot distribution warehouse and a 36,472 square foot outlet store with a gross leasable area of 339,400 square feet on a 632,075 square foot site.

The outlet store is leased to an affiliate company and the warehouse is owner occupied. No specific information was provided as to present lease terms. For the purpose of the appraisal the value by the Income Approach is developed using market rents.

The Appraisal Report contains the definitions of appraisal terms and describes the neighborhood and site followed by analysis of the highest and best use. The value opinion is qualified by certain assumptions and limiting conditions set forth in a separate section at the end of the report. As reported in the appraiser's certification, we have performed services for this property within the three-year period immediately preceding acceptance of this assignment.

The appraisal intended use is property equity analysis by the intended user, Korein Tillery Law Practice, represented by Mr. Peter Rocque, Esq. No other use or users are intended by the appraisers.

Thanks for the privilege of serving you.
Cordially,



Pedro A. Pons, MAI, SRA
State Certified General Real Estate Appraiser
Certificate No. 24GC
State License No. 91EPA



Esteban Lamadrid
State Certified General Real Estate Appraiser
Certificate No. 186GC
State License No. 713EPA



**Sears Distribution Center and Outlet Store
PR-176 Km 0.5, Cupey Bajo
San Juan, Puerto Rico
Location Coordinates 18.38447⁰; -66.06071⁰**

Sears Distribution Center #8975

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Sears Distribution Center #8975	Summary of Important Facts
Property	Sears Distribution Center and Outlet Store
Location	PR-176 Km 0.5, Cupey Bajo, San Juan, Puerto Rico
Location Coordinates	18.38447 ⁰ ; -66.06071 ⁰
Site Area	Two lots totaling 632,075 square feet equivalent to 14.51 acres.
Zoning	I-1 Light Industrial and C-2 or Commercial Central Intermediate
Building Areas	Two buildings Distribution center - 302,928 square feet Outlet Store 36,472 square feet Total 339,400 square feet
Highest and Best Use	Current distribution center
Format Option	Appraisal Report
Property Owner	Sears Roebuck & Company
Interest Appraised	Fee Simple
Reported Value	Market
Intended Use of the Report	Equity analysis
Market Value Indications	
Income Capitalization Approach	\$22,300,000
Sales Comparison Approach	\$22,100,000
Reconciled Market Value “As Is”	\$22,100,000
Effective Date	March 15, 2019
Report Date	April 5, 2019
Extraordinary Assumptions	Conversation with the property guide indicates that erosion control soils work is required along the east bank of the river where the outlet store is located. The property is appraised under the extraordinary assumption that the soil's load-bearing capacity is sufficient to support existing

Sears Distribution Center #8975

Summary of Important Facts

structure(s). Remedial soils work could affect the reported property value.

Prepared For

Mr. Peter Rocque, Esq.
Korein Tillery Law Practice
St. Louis, MO

Prepared By

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Sears Distribution Center #8975

Introduction and Scope of Work

This appraisal forms an opinion of the market value of the Sears Distribution Center, located at PR-176, Kilometer 0.5, Cupey Bajo Ward, San Juan, Puerto Rico. The property is a distribution center housing the operations of Sears in Puerto Rico and an outlet store. The property is addressed as Sears thru the report.

Dates and Time

The effective date of the market value is March 15, 2019. The report date is April 5, 2019. Exposure time for the appraised property is assumed average and estimated at eighteen months at the reported market value.

Format Option

As per the Uniform Standards of Professional Appraisal Practice, 2018-19, Rule 2-2, this appraisal is conveyed in the Appraisal Report option.

Reported Value and Appraised Real Property Interest

The warehouse property is owner occupied, housing Sears' distribution operations and the Sears Outlet Store is leased to the subsidiary, Sears Outlet Sores LLC. This appraisal reports the Market Value of the fee simple rights as of the inspection date. The Income Approach assumes market rents for the distribution center and the outlet store as no lease information was available.

This report addresses the value of the real estate and excludes personal property, machinery or equipment except for items which may be noted elsewhere in this report.

Intended Use, Client and Intended Users

The intended use of the appraisal is property equity analysis. The client and intended user is Korein Tillery Law Practice, represented by Mr. Peter Rocque, Esq. No other uses or users are intended by the appraisers.

Assumptions and Limiting Conditions

The property guide at the time of inspection indicated that erosion control soils work might be required along the east bank of the river bounding with the outlet store. The property is appraised under the extraordinary assumption that the soil's load-bearing capacity is sufficient to support existing structure(s). Remedial soils work could affect the reported property value.

Definitions

Market value is defined in the Dictionary of Real Estate Appraisal, Sixth edition published by the Appraisal Institute as:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller

Sears Distribution Center #8975

Introduction and Scope of Work

each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

This definition has the most widely accepted components of market value.

The *Dictionary of Real Estate, Sixth Edition*, published by the Appraisal Institute defines as is market value, leased fee interest, fee simple interest, extraordinary assumption and exposure as follows:

As Is Market Value

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.

Leased Fee Interest

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.

Fee Simple Interest

Absolute ownership unencumbered by any other interest or estate; estate; subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power and escheat.

Extraordinary Assumption

An assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false could alter the appraiser's opinions or conclusions. (USPAP 2018-2019)

Exposure Time

The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Scope of the Analysis

This appraisal intends to comply with the USPAP 2018-2019 Edition report requirements and the Code of Ethics of the Appraisal Institute.

Extent to Which the Property is Identified

Physical Characteristics and Inspection

The Sears property is a combination distribution center and retail outlet store. Esteban Lamadrid, MAI inspected the property on March 15, 2019. Pedro A. Pons, MAI did an exterior inspection on March 30, 2019. The visual inspection serves to corroborate the improvement descriptions provided by the client which are relevant to the valuation problem.

Sears Distribution Center #8975

Introduction and Scope of Work

Legal Characteristics

The appraisers relied on the Puerto Rico Government geo maps, to identify the property area. In addition to zoning map, observations, area distribution, site and floors plans supplied by the owner for information regarding easements, covenants, restrictions and other encumbrances.

Economic Characteristics

Sears operates as a private storage not regulated by the Puerto Rico Public Services Commission. The Sears property is negatively affected as most properties thru the Island by the local economic conditions, that are causing external obsolescence.

Type and Extent of the Data Researched

We appraised the facility considering rents and sales attributable to the real estate.

We interviewed owners and end users of warehouses and distribution centers with all of them confirming the interest for storage space.

There are no computerized or reliable multiple listing services, comparable sales services, tax data services available in Puerto Rico. Appraisers rely on information from market participants. The data was verified at the property registry and with at least one of the parties involved in the transaction, as detailed in each comparable sale and with the property owners and tenants regarding the rent, absorptions, and expenses data.

Type and Extent of Analysis Applied

The value opinions presented in this report are based upon review and analysis of the market conditions affecting real property value, including the attributes of competitive properties and sales data for light industrial properties.

The appraisal problem did not warrant an intensive highest and best use study, as the property is expected to continue its current use with no potential redevelopment expected. The light industrial market overview is an appropriate analysis to support the subject competitiveness.

We have considered all three approaches to value but only the Income and Sales Comparison approaches were developed to arrive at the final opinion of value for the subject property.

Improved sales of light industrial buildings acquired thru the San Juan metro area are presented in the Sales Comparison Approach section. Sales data, rents and expenses information is zealously guarded by shopping operators in Puerto Rico with only partial information provided by those interviewed.

In addition, rents, occupancy and expenses of similar buildings in the market were research to apply the Income Capitalization Approach.

Sears Distribution Center #8975

Introduction and Scope of Work

After selecting the sales, a comparative analysis of relevant factors that influence value was undertaken to adjust the sales to the subject property based upon the actions, and preferences demonstrated by the participants in the marketplace.

The value indication by Income Capitalization Approach comparison serves as a test of reasonableness and supports the Sales Comparison Approach opinion.

In the reconciliation, the quantity and quality of the data available under each approach, the advantages and/or the disadvantages of each approach and the relevance of each to the subject property and the appraisal problem are considered.

Sears Distribution Center #8975

Identification of Property

The Sears site fronts PR-176 at Km 0.5, at the Cupey Ward of San Juan, Puerto Rico. The site is split by the Rio Piedras River with the distribution building at the west, and the outlet store at the east bank. The legal description of the property was not provided, the site is identified with the Puerto Rico Planning Board (PRPB) geo-information. As per the owners the site has 632,075 square feet very similar to the 632,080 square feet reported by the PRPB website.



Distribution Center



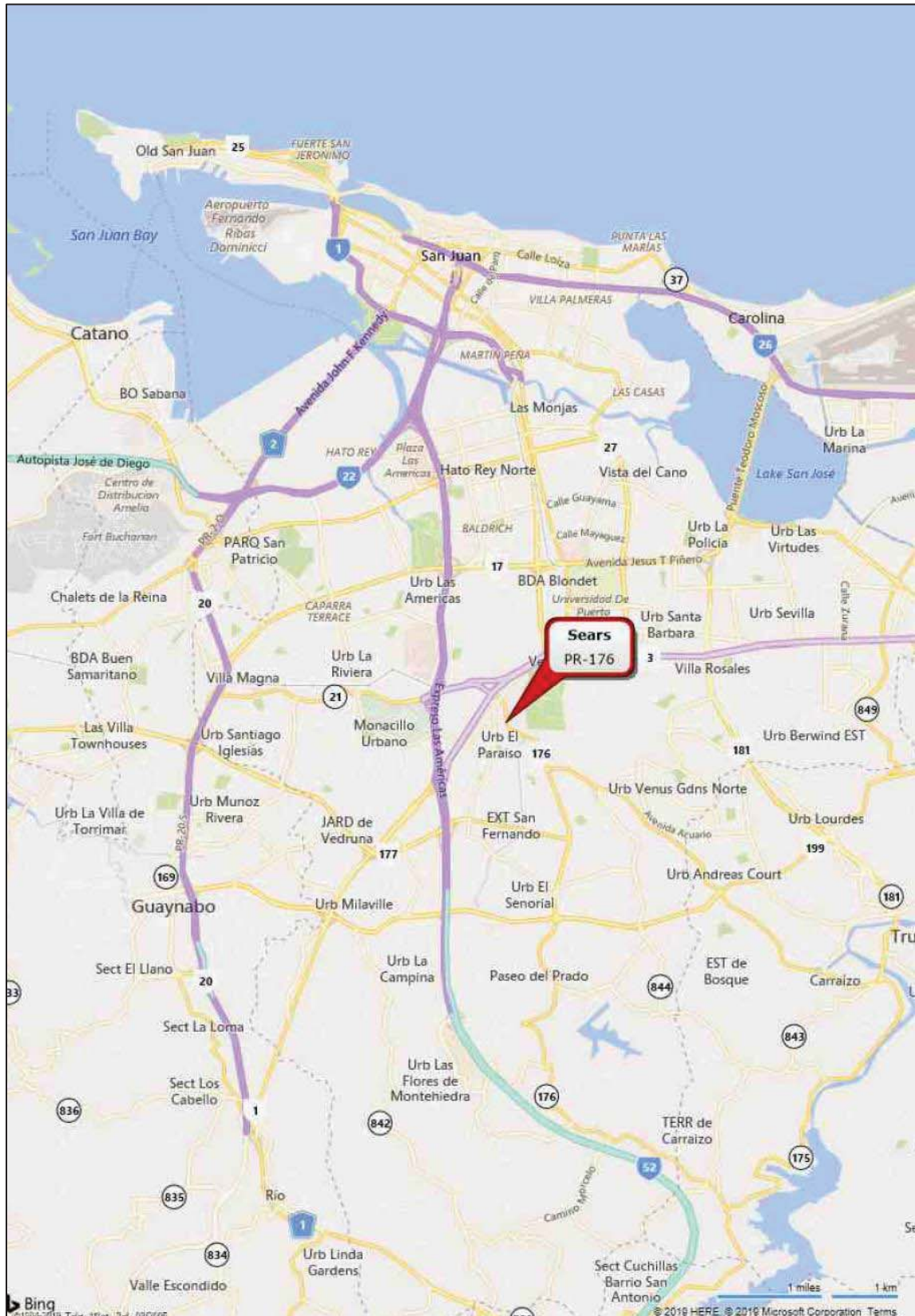
Outlet Store

History of the Property

The property owner is Sears Roebuck and Company, since the early 1960s'. To the best of our knowledge the property has not been transferred, listed or offered for sale within the past three years. A title study is recommended.

Sears Distribution Center #8975

Identification of Property



Location Map

Sears Distribution Center #8975

Regional Analysis

This section describes *Puerto Rico*, its physical and climate characteristics, historical and political relations with the U.S., and the way they affect the real estate market. This is followed by the property's immediate neighborhood.

Puerto Rico – USA

Puerto Rico is an island of the Greater Antilles located between the Dominican Republic and the U.S. Virgin Islands. Shaped as an irregular rectangle, its approximate dimensions are 100 by 35 miles. It was a Spanish colony until 1898, then, as a result of the Spanish-American War and the Treaty of Paris, Puerto Rico came under the sovereignty of the United States. Both the Spanish heritage and the 100 years of relationship with the United States are reflected in today's customs and the real estate market. Most notable influences include a Napoleonic legal code and Common Law, the operation of the property registry system together with title insurance companies, measuring land in square meters contrasted by measuring construction in square feet, and of course, a number of traditions and customs with language being the most important one. Spanish is the main language and English as a second language, provides the Island a commercial edge in the international business community.



Sears Distribution Center #8975

Regional Analysis

Puerto Rico enjoys political stability starting from Puerto Ricans becoming U.S. citizens, as a result of the Congress of the United States approval of the Jones Law in 1917. In 1948, the Island held its first elections for governor and in 1952, approved its Constitution as a U.S. Commonwealth. Under Commonwealth status, Puerto Rico was to share with the U.S. a common defense, currency, citizenship, social security and a number of federal programs but recent US Supreme Court opinions confirm the power of the US Congress over the island. All fiscal U.S. agencies, such as the FAA, FCC, SEC and FBI regulate in Puerto Rico, as they do in any other state. Important for appraisal purposes, HUD and FHA have a major presence on the Island and the FDIC regulates banking institutions. FIRREA and the Appraisal Subcommittee regulate appraisals where federal funding is involved, equivalent to possibly more than 90 percent of the appraisal reports completed for financing purposes in Puerto Rico.

Puerto Rico has a highly diversified economy and good trade relations with the United States. The United States accounts for approximately 88 percent of Puerto Rico's exports and 56 percent of its imports.

During the early fifties, the Government of Puerto Rico started, with the aid of the U.S., an industrialization plan for the Island. In less than twenty years, as a result of a tax exemption program granted to U. S. corporations manufacturing in Puerto Rico, the mostly agricultural economy of the first half of the century became an industrialized one. The tax exemption program was modified during the early eighties to become Section 936 of the U.S. Internal Revenue Code. A major construction boom started in Puerto Rico during the late fifties as a result of the industrialization and economic growth. The real estate market flourished given the small territory, development land became scarce and the prices increased dramatically. Today, the principal cities and towns have limited vacant land for development.

After sixty-five years of the creation of the P.R. Commonwealth, the status is perceived as transitional and requiring changes. Recent events at the US Congress have confirmed that the Island is still under colonial status. There are three possible outcomes or scenarios in the P.R.-U.S. relationship, namely statehood, some kind of associated independence or full independence, all are constantly under debate, scrutiny and subject to possible changes. Past plebiscites and legal referendums show that it will take years to reach a final consensus even though there was a majority vote for statehood in the November 2012 and again in the 2017 status plebiscites. If any of these changes were to occur, it would take at least 15 years to complete. Nonetheless, the question of the political future of the Island and any risks it may represent does not show a major impact or effect on the real estate market or property values.

PR Economic Outlook

The present Puerto Rico economic recession started in May 2006 when the governor, Aníbal Acevedo Vilá shut down the government due to lack of funding and facing a \$740 Million operational deficit. To re-open the government and increase tax revenues the imports excise or duty tax was replaced by a sales tax named IVU, considered effective, equitable and capable of collecting the much needed monies. Part of new sales tax was to

Sears Distribution Center #8975

Regional Analysis

fund COFINA, the Puerto Rico Sales Tax Financing Corporation, to provide for new bonds issues. Unfortunately, government spending was not curtailed or reduced continuing operating balancing the budget with new loans.

In early 2014, the three main credit rating agencies degraded the Puerto Rico Bonds to almost junk levels, causing a request for speed-up payments and casting newer shades in the government ability to control the budget. To accomplish the bond market requirements, short term payments and recapitalizing the Puerto Rico Government Development Bank, a \$3 Billion bond sale was successfully marketed by mid-March at lower than expected interest rates. A later planned bond sale never materialized, further impairing the government cash flow.

The Incentives for the Transfer to Puerto Rico Individual Investors Act, approved in 2012, has lured millionaires seeking tax savings, including the billionaire Mr. John Paulson, to move to the Island. Paulson & Co invested over \$300 Million in the acquisition of the St. Regis Bahía Beach Resort and later a \$240 Million investment for the Condado Vanderbilt and La Concha Renaissance hotels. Numerous high worth individuals have moved to the island taking advantage of the income and capital gains tax benefits.

Federal Economic Plans

The Puerto Rico Commonwealth has actively participated in Federal Economic plans including the TARP, Recovery and Reinvestment Act of 2009 and the FDIC consolidation of local several local banks.

Puerto Rico is trying to develop a diversified economy outside of Federal tax exemption. Lufthansa chose the Island for its Americas aircraft repair hub completed at the Aguadilla Airport. Aircraft industries like Honeywell, Infosys, AXON, and Pratt & Whitney announced expansions. This along with biotechnologies and pharmaceutical expansions confirms the availability of knowledge resources on the Island. Puerto Rico has four engineering schools accredited by the Accreditation Board for Engineering and Technology (ABET), four medical schools with their students required to approve the USMLE exam, a similar number of law schools and a complex and comprehensive second and higher-level education systems, which support the technical and education requirements of the next generation industry.

Oil Products Tax and Sales Tax vs. Value Added Tax

Reduction of the fiscal revenues forced the government to plan a bond issue guaranteeing its payments with a tax over all oil products. Generally, the tax impacted gasoline prices by \$0.04 per liter, it started in early April 2015. But the bond issue never materialized with monies going directly to the general fund. Fortunately, the negative impact and inflationary effect of this tax to the local economy was diminished by the reduction of oil crude prices.

In late May 2015, the sales tax rate of 11.5 percent (including a municipal one percent tax) was approved along with a different rate for B2B services, but excluding medical services as well as all levels of private education. This rate was perceived as a deterrent

Sears Distribution Center #8975

Regional Analysis

to Island economic growth unless accompanied by an income tax rate reform and a cut in government spending.

Puerto Rico's 72 Billion Bond Debt

During 2015, contradictory news led to the conclusion that Puerto Rico was going to default on the bond payments at some time in May or June 2016, even though the payments were made at the very last moment. Appropriate parties were working towards a solution to address Puerto Rico's significant fiscal and operational difficulties while respecting the rights of creditors. In the meantime, Puerto Rico lacked access to additional funds with more fiscal budget cuts being pondered, conditions that affected potential investments on the Island.

The alternatives to re-structure government debt thru a bankruptcy process or at the Federal Congress with a bond buyout securitized by the Federal Reserve were not possible, leading the Federal government to legislate a Fiscal Control or Oversee Board to help and aid the budget crisis.

On Monday, May 2, 2016, the government defaulted payment on almost \$400 Million in bonds, with announced defaults for \$2 Billion in bills due later that summer. Bond payments are on hold under the US Bankruptcy Court jurisdiction as explained later.

PROMESA

On June 30, 2016, then President Obama signed the bill known by its acronym as PROMESA, (Puerto Rico Oversight Management and Economic Act), which translates to promise in Spanish, two days before Puerto Rico was due to make a \$2 Billion payment to creditors.

PROMESA did not provide funding to pay the debt, but it did prevent bondholders from suing the island for a limited time. It installed a Fiscal Oversight Board (FOB) to come up with a plan to solve the financial crisis. The FOB is composed by seven members appointed by the President, six of whom were recommended by Congress leaders, the Governor of Puerto Rico serves as an eighth ex officio member without voting rights.

The Government of Puerto Rico is required to submit to the FOB a fiscal plan that to achieve financial responsibility. The Fiscal Plan main goals are among others, ensure the funding to the essential public services, adequate funding for the public pension funding, elimination of the structural deficit, improve governance accountability, include debt summary analysis, and provide capital expenditures and investment to promote economic growth in addition to submit and include any additional information required by the FOB.

The Fiscal Oversight Board controls the local finances and budget, well perceived by the general population as a stop to years of government mismanagement. Bonistas del Patio, a group representing the more than 60,000 Puerto Ricans who own bonds that are in trouble, perceive PROMESA as a tool for the needed economic growth that will get Puerto Rico back on its feet.

Sears Distribution Center #8975

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On October 17, 2016 the FOB rejected the first Fiscal Plan submitted and has been at odds with the government since then.

Elections 2016

The November 8 elections resulted in a change of parties in both the USA and Puerto Rico. Puerto Rico voters elected Dr. Ricardo Rosselló as the new Island governor along with a Senate and Chamber majority ruled by the PNP. The elected government faced the problems to reduce the budget shortfall, the Government Retirement Fund collapse, the Island lack of credit worthiness along with the FOB requirements. The Governor ratified his interest and willingness to collaborate with the FOB requirements but recent developments do not confirm it. As recent as February 2019 the First Appellate Court of Boston determined that the process of appointing FOB members was illegal and granted 90 days to correct their nominations, but sustained their actions and decisions, further increasing controversy.

2017 – 2018 Budget and Declared Bankruptcy

As the Fiscal 2017-2018 Budget was being prepared for approval by the Federal Oversight Board, the Puerto Rico Government faced the inability to continue with the debt payments with the bond holders staring legal collecting procedures. The Government requested to FOB the implementation of PROMESA Title III, which allows the president of the US Supreme Court to appoint a federal bankruptcy judge for Puerto Rico, appointing Hon. Laura Taylor Swain. In addition to the general government debts, the Governor later requested the addition of the Highway Department and the Government Employees Pension Fund, with the latter payments to be included with the general fund. In early July the \$9 Billion in debts of Autoridad de Energeia Eléctrica (AEE) were also included. Hon. Taylor Swain faces the restructuring Puerto Rico's \$73 Billion debt along with the AEE debt and returning the Island to healthy operating levels, but as stated by her it will be a painful and difficult road for all.

The 2017-2018 Budget included extensive cuts affecting all government spending, in particular, \$202 Million to the University of Puerto Rico, \$1.445 Million to the State Department, \$1.156 Million to the Natural Recourses Department, \$106 Million to the Department of Education, along with \$150 Million to eight other government agencies. Included in the budget cut is a \$175 Million reduction to the municipal governments with the possibility of the smaller and even larger municipalities expected to decrease or limit their labor force working hours in addition to start charging for services like waste collection.

Along with the budget cuts, the government proposed collecting additional revenues from, transit fines, vehicle permits, improving IVU sales tax collection and reduce tax evasions. Renegotiations of the public debt will improve the government capacity to start infrastructure and development plans.

The Puerto Rico Planning Board was projecting at last two years of negative growth, caused by the described austerity measures. But on September 2017 hurricanes Irma and Maria devastated the Island. The only positive after Hurricane Maria was the start of an

Sears Distribution Center #8975

Regional Analysis

improving fiscal outlook with the relief money entering the economy. Recent agreements with the bondholders at the Bankruptcy Court have triggered a better perspective of the \$72 Billion local bonds.

Clashes between the Fiscal Board and the Government

In early 2018 the Puerto Rico Government submitted its budget to the FOSB, it was rejected in February 2018. The board main reasons for rejection were; lack of detail and specific information regarding the projected revenues, lack of a five year financial plan for the Puerto Rico Electric Power Authority (PREPA), the plan for the Puerto Rico Water and Sewer Authority lacked operational cost reductions and infrastructure investment incentives and most important, review of the Federal Incentives for the Island for relief of the hurricanes damages.

After several negotiations the Fiscal Board approved the 2018-2019 budget including additional reserve funds.

On early November 2018 a new Income Tax reform was approved by the Puerto Rico Legislature, pending the Governor's signature which is reviewing the requests of the Fiscal Board regarding neutrality or the Zero cost to the fiscal plan approved. The reform includes a new work credit, reduce the tax rate for individual and corporations, reduce the B2B tax and decrease the sales tax on prepared foods. Additional funds will come from taxing video slot games and additional inclusion of current tax evasions.

Hurricanes Irma and Maria.

On September 7, 2017 Hurricane Irma made landfall in Puerto Rico with the Federal Government declaring the Island a major disaster area, before FEMA and Federal Aid agencies started with the local recovery, two weeks later, on September 20, Hurricane Maria, the fifth strongest hurricane to hit US, and with the kind of rain that Hurricane Harvey dropped on Houston, wrecked the Island.

Puerto Rico lost almost all of its electrical power distribution grid with less than 20% of its generating power restored 3 weeks after the hurricane. Two days after the hurricane 95.6 percent of the mobile communications were down, with 48 towns 100% out of mobile service. The direct and indirect death toll was officially reported at 55 persons, with the toll highly contended by news reporting agencies such as CNN which reported the total at 499. Only 72 percent of the hotels and inns were in operation after the hurricane, with some not expected to reopen. Several shopping centers like Plaza Carolina, Prime Outlets, Palma Real, and Outlets 66 were vastly damaged, with almost all centers suffering some sort of damages slowly reopening. Schools and the university systems were shut down for over a month. Restocking of goods, gasoline and diesel were critical up to two weeks after the disaster.

Damages to the Island were estimated at over \$80 Billion, destroying over 50 percent of the agricultural infrastructure, dairies and chicken farms structures, with over 60,000 people leaving the Island after the storms, speeding the large immigration accumulated to over 220,000 people in the past five years. Request for unemployment benefits increased

Sears Distribution Center #8975

Regional Analysis

sharply, expected and normal, as experienced in past hurricanes. Main problem was reopening closed business, many shut down permanently. Business that remained operating experienced a clientele surge as well higher operating expenses, mainly fuel for auxiliary power generators and increased security. Overall recovery was slow with 84 percent of the power restored by March 2018, and 99 percent by May 2018.

The hospitality industry suffered high damages with 31 of 151 hotels closed a month after Maria, including main flags like: Conquistador at Fajardo, El Condado Plaza, W at Vieques, San Juan Gran Melia, Caribe Hilton at San Juan, Dorado Beach and Ritz-Carlton Reserve. Those that remain open reported almost 100 percent occupancy due to the local residents temporarily moving in and the surge of first responders that came to the Island. As of February 2019, many hotels remain closed as these are undergoing major remodeling, including the Caribe Hilton (652 rooms), Melia Coco Beach, Condado Hilton Plaza (572 rooms), Ritz Carlton (416 rooms) and El Conquistador (750 rooms).

Federal Aid Packages for Puerto Rico.

On February 7, 2018 President Trump approved a budget law that grants Puerto Rico \$16 billion; eleven of these to mitigate the hurricane damages and 5 billion to continue with the Medicaid programs. The \$11 billion for the hurricane damages will be for housing, road and infrastructure repairs as well as special assignments for PREPA and the US Army Corps of Engineers. Local economists are now reviewing the effect of the potential aids with some suggesting that the island labor force supply is not sufficient therefore possibly attracting the return of some of the thousands that left the Island.

Economists reported a drop in the Gross Domestic Product of 2.38% in 2017 and 2.33 in 2018 with an expansion expected in 2019 and slowing down in 2020.

General perspective of those interviewed is that the island will experience at least two to three years of growth to all sectors, including retail sales and local manufacturing, gradually tapering down in a four-year span to pre-Maria levels. Economists agree that the potential increase in the spending could help the Island recover from its economic development inertia, but this remains to be seen.

Conclusion

Puerto Rico has experienced a dramatic economic growth over the last 50 years. It changed from an agricultural to an industrial economy and is recently growing in the services trade sector. However, the Island depends heavily on the United States economy and on the policies adopted by the U.S. Congress, as is the case of the 936 Section of the Internal Revenue Code. The Puerto Rico economic recession started in 2006, never entering a recovery. This economic scenario along with PROMESA and the Title III Bankruptcy was to be the road to recovery for the Island. After the overwhelming destruction caused by Maria, Puerto Rico entered a new normal that will continue for the next years.

General opinion is that Puerto Rico is in position to create a “new Puerto Rico” with a stronger economy and a rebuilt infrastructure, but this cannot be accomplished without

Sears Distribution Center #8975

Regional Analysis

help. To this regard the budget restructuring law signed by President Donald Trump, including Puerto Rico in the relief fund package, as well as the previous relief packages for damages caused by hurricanes Harvey, Irma and Maria, will grant Puerto Rico some of the tools required. Sensitive, quick acting and responsible management of these funds is of primary importance to the Federal government and to the people of Puerto Rico.

The Puerto Rico governor's executive orders to consolidate agencies for a leaner and more productive government operation, setting aside years of overspending, developing modern public management policies, privatization of PREPA, whose structure has been detrimental to a fast Island recovery, and new policies for PPA's investments on infrastructure, will all be part of the local effort to improve the Island economic forecast.

In addition, Puerto Rico's large bond debt and legal problems show better perspectives for a better restructuring of its debt and return to the financing markets, supported by the GDB expected transaction. On February 2019 a U.S Federal judge approved a major debt restructuring plan for the island's debt that could save over \$400MM in debt service costs. The new Federal Tax Reform with the potential of including Puerto Rico, as a whole in the Incentives for Investments in Low-Income Communities, is a potential highlight for the local industry.

Of utmost importance is the fast population reduction rate and the ability to reverse this trend bettering the Island economic conditions. The unemployment rate has dropped from 14.0 percent in 2013 to close to 8.0 percent in 2018, and 2018 retail sales reported a 14.83 percent increase over 2017, both a positive note. Puerto Rico's is in an economic turmoil, but the recent events are now opening new opportunities with a better potential of entering the much expected road to recovery.

The San Juan Metropolitan Area

Sears is located at the Cupey Ward of San Juan. San Juan is the State capital and the largest of the 13 municipalities forming the San Juan Metropolitan Area (SJMA)¹. It's loosely located in the northern part of Puerto Rico, east of Guaynabo; and west of Carolina and Trujillo Alto. San Juan spreads over 18 wards including the Old San Juan. It is also part of the larger San Juan-Caguas-Fajardo Combined Statistical Area. Guaynabo has a land area of 27.13 square miles (70.26 km²) and a population of 97,924 as of the 2010 Census.



The Puerto Rico Planning Board population estimate for San Juan for 2016 is 347,052 a 12 percent reduction from the 2010 Census. This is not only limited to the San Juan

¹According to the Puerto Rico Planning Board, the SJMA includes the municipalities of Dorado, Toa Alta, Toa Baja, Cataño, Bayamón, Guaynabo, San Juan, Trujillo Alto, Carolina, Loíza, Canóvanas, Río Grande and Naranjito.

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Municipality but is also affecting the immediate municipalities of Bayamón, Guaynabo, and Cataño. Main reasons for the population decrease is the migration to the US looking for better employment opportunities along with health related services, and decrease in the birth rate during the last years. Population reduction thru San Juan, Bayamón, Cataño, and Guaynabo is also attributed to higher commercial developments, high cost of living, and high home prices while neighboring municipalities, particularly Toa Alta, Dorado, and Canóvanas continue their emergence as prime residential areas. Population decrease will have a domino effect in the local housing, retail, and office demand for the next years.

Population Trends					
Municipality	2000	2010	% Change	2016*	% Change
Guaynabo	100,053	97,924	-2.1%	89,307	-8.8%
San Juan	434,374	395,326	-9.0%	347,052	-12.2%
Bayamon	224,044	208,116	-7.1%	184,371	-11.4%
Cataño	30,071	28,140	-6.4%	24,968	-11.3%
Total	790,542	731,516	-7.5%	645,698	-11.7%

* <http://www.census.gov/popest/>

The immediate neighborhood is tightly associated with Guaynabo which income per capita is the highest of the Island and considered one of the best San Juan suburbs preferred by upper-middle and high-income families, for its many middle to high income subdivisions, good schools and commercial sectors. Trujillo Alto Municipality is another that has a great influence due to its proximity.

San Juan contains the greatest proportion of the urban land in the SJMA, followed by the municipalities of Bayamón and Carolina.

Between the years 1960 and 2000, the SJMA population increased from 695,000 to 1.4 million people, an increase of 87 percent, or 37 percent of the total population in Puerto Rico. By the year 2010, regional population is expected to grow by an additional 20 percent to 1.55 million people. One third of the SJMA population resides in San Juan. The SJMA has a highly concentrated population, averaging 1,317 persons per square kilometer. Average population densities in San Juan are among the highest in the United States.

As is the case with population, regional employment is largely concentrated along the north-south and east-west expansions of the metropolitan area. U.S. Department of Labor figures for 1990 attribute 62.6 percent of the region's total employment to San Juan, while Bayamón, Carolina, and Guaynabo together hold another 23 percent. Employment within the SJMA is heavily concentrated in the core of San Juan, Bayamón, Guaynabo, and Carolina.

High density residential areas concentrate along the central area of the region specially the San Juan – Rio Piedras sector. Residential developments of lower density predominantly single family dwellings are spread through the peripheral areas of the SJMA.

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The SJMA centralizes the majority of the most important institutional, commercial and part of the industrial activities of the Island. These activities have spread over the region following both a lineal pattern with nuclei of different activities among this pattern.

Health facilities in the SJMA are 40 percent of all the public hospitals on the Island including the “Centro Médico” complex. Private hospitals are in their majority located within the redevelopment zone and compromise 50 percent of all hospitals in the Island. There are eight government university campuses in the SJMA with a good number of private universities accounting for almost 60 percent of all the higher learning institutions in Puerto Rico.

The SJMA urbanized areas are served by regional and local waste water treatment plants and a potable water system managed by “Autoridad de Acueductos y Alcantarillados”. The “Autoridad de Energía Eléctrica” provides utility power through the Island.

From the San Juan center depart state roads PR-1, PR-2, and PR-3 to the rest of the Island, main toll roads are Toll Road PR-22 to the west and “Autopista Las Américas”- Toll Road PR-52 to the south, both have helped to alleviate the heavy traffic load in the area. Toll Road PR-52 intersects PR-177 and PR-199 which are the main linkages to immediate subject neighborhood. There is a complex system of roads and avenues serving the metro area of approximately 360 kilometers.

Transportation is mostly provided within the core of the area by “Autoridad Metropolitana de Autobuses” and Metrobus heavily concentrated in northern and central San Juan and Carolina, while most of the privately owned independent vehicles known as “públicos”, are focused on Bayamón and Rio Piedras. “Públicos” and local bus services have suffered from declining patronage over the past decade largely because they are constrained by the same congestion bottlenecks as private automobiles. This situation has triggered the investing and planning of the “Tren Urbano” to improve mobility within the SJMA. Urban train route travels from Bayamón to Hato Rey.

The SJMA as any other highly developed community suffers from ailments such as shortage of developable land, non-uniform area density, lack of infrastructure, depletion of the natural resources and inefficient use of energy mostly due to the necessary use of autos. To safeguard the SJMA for future and needed expansions the Puerto Rico Planning Board prepared a strategic plan known as the “Plan de Usos del Terreno Región Metropolitana de San Juan”.

The government planned to reshape the area to core of the San Juan Metropolitan Area with a project being renamed thru several administrations the Greater San Juan area, Ciudad Red or Ciudad Mayor. New developments were planned along the Tren Urbano corridor at parcels own by the urban train, expecting approximately \$840 Million of private and public investments and triggering 16,000 direct jobs, 1,459 new housing units and 1,150,000 square feet of office space and 245,000 square feet of commercial areas to serve the new housing towers. Four main clusters next to the main train stations were to benefit from the proposed plans.

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The main redevelopment zones around the train stations include Cupey, Hato Rey, Stop 26 in Santurce, Martínez Nadal at Guaynabo and the Bayamón town center. The idea is for most government offices and large office buildings to be located within walking distances of these train stations as nuclei for overall transportation. Other areas include the Santurce sector along Ponce de León and Fernández Juncos avenues, the Rio Piedras downtown area, the Martín Peña sector, Stop 18 in Santurce and the south section of Puerta de Tierra, facing the San Juan Bay.

Unfortunately, extremely high acquisition prices of the vacant parcels tied to high construction costs, excess supply of high price units, demand shortage and lack of financing put a standstill to most of the proposed development. The joint developments at Hato Rey along the Tren Urbano are on hold with along the parcels privately acquired and those already started fearing a very long absorption period. The similar is occurring with the proposed developments thru Santurce, Miramar, The New Convention Center and other areas in the metro area.

General neighborhood description and its relevance to the appraised property are discussed in the following section.

The Immediate Neighborhood

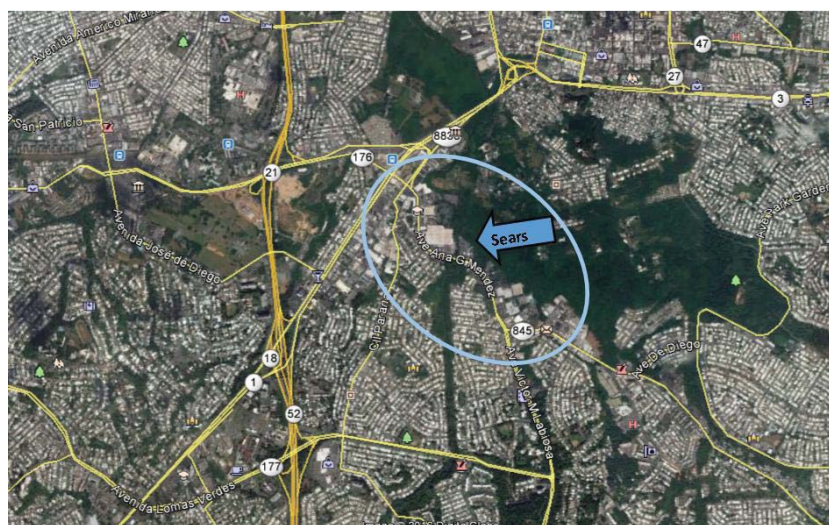
The appraised property is located at the Cupey Ward, a sector of San Juan. The ward is roughly bounded as follows:

North: Rio Piedras Ward

South: San Antonio Ward of the Caguas Municipality

East: Carraízo and Las Cuevas wards of Trujillo Alto Municipality

West: Monacillos and Caimito wards



Aerial neighborhood view - Google Earth

PR-199 better known as Las Cumbres Avenue runs east thru west of the immediately area giving easy access to Trujillo Alto, Guaynabo and San Juan area. PR-177 also serves as

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important parallel connector in the immediate neighborhood. These avenues intersect Toll Road 52 or Las Américas Expressway and other secondary and primary roads including PR roads 176, 181, 844, 845, and 846. Providing easy access to industrial and office employment centers in the metropolitan area including El Paraíso, Las Cuevas, and Cupey industrial parks; Professional Office, Corporate and Caparra Office Park.

Along the avenues many single, multifamily, condos, retail, office and institutional facilities have been established during the last two decades. The residential developments include Los Paseos, Los Adoquines, and Estancias del Bosque; both single-family projects; Santa María, Mont Blanc, Puerto Paseo and San Juan Tower, all of them high-rise condos; and many existing and new multifamily walk-ups construction developments including Sierra del Sol, Caminos Verdes, Tiffany Plaza, and San Juan Chalets, among others. Most of them have been experimented lowering from 25 to 50 percent compared with the original sale price causing by the market conditions.

Older residential subdivisions include Parque Forestal, Villanova, Los Paseos Master Plan, Montehiedra Master Plan, Borinquen Gardens, La Alameda, El Remanso, Villas del Paraná, Villa del Pilar, Alturas de Caldas, Apolo, Santa María, San Francisco, Ibernía, Río Piedras Heights, El Señorial, La Cumbre, Milaville, Búcare, and La Campiña. The most outstanding developments are Montehiedra and Los Paseos, two exclusive neighborhoods in the metro area with value ranges from \$300K over \$1.0 million. The most recent residential developments in San Juan are Senderos de Montehiedra, Mansiones de Monteverde, Sierra del Río, La Cima, Santa María, and Arcobaleno. Average sale prices range from \$130,000 up to exclusive units over \$500,000.

Retail and office use along PR-177 and PR-199 route include: Las Vistas Shopping Village; close to the Las Américas Expressway, Paseo Las Cumbres SC, Santa María SC. Other secondary roads PR-176 and PR-845 house commercial centers such as Plaza Cupey and Cupey Professional Mall serving to the immediate neighbors. Regional centers located thru the neighborhood include El Señorial Plaza, and Montehiedra, the largest with approximately 600,000 square feet anchoring tenant as Kmart, Home Depot, Caribbean Cinemas, and Marshalls. Montehiedra is now remodeling stores to outlet type ones. These centers are located at five to ten minutes driving time from the subject.

Companies with presence in the area are Sears, the USPS with a 68,000 square feet distribution warehouse center, Evertec office headquarters and Ana G. Mendez Metro Campus.

PR-176 where the appraised property is located serves as connector from PR-1 to PR-177, PR-199, and other parts of eastern portion of San Juan. The avenue is predominated by the Universidad Metropolitana Campus (UMET), of major economic importance, the Sears distribution center and small scale retail and professional offices. Users observed in the area include gas stations, workshops, and stores, some fast foods. Industrial activity is concentrated in an industrial park located southeast at the PR-845 with the, US Postal Services, being the major tenant. Occupancy in the area appear to be stable with approximately 10 percent of the immediate park vacant.

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Regional Analysis

Regarding to medical facilities the Puerto Rico Medical Center complex is 1.25 miles northwest and the San Gerardo Hospital is about a similar distance southeast. This is a general accurate hospital acquired by HIMA Group remodeled in 2017 with an investment near to \$4.0 million dollars.

Conclusion

The appraised property is located in a stable sector of San Juan, which has a well balanced mix of residential, commercial, industrial and institutional uses. Its location within the metro area and easy access to main and important roads of the San Juan Metro Area make it an attractive location for a variety of users.



View northwest along PR-176, fronting the distribution center

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View southeast along PR-176, fronting the distribution center



View northwest along PR-176, fronting the outlet store

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Site Description

This section presents the physical, legal and location characteristics of the Sears' site.

Location

Sears is located at PR-176 Km. 0.5 at the Cupey Ward of San Juan, Puerto Rico. The stretch of PR-176 where the property is located is also known as Ana G. Mendez Avenue, founder of the immediate UMET University.

Location coordinates are: 18.38447⁰; -66.06071⁰.

Area & Equivalences

The property has 632,075 square feet equivalent to 14.51 acres.

Boundaries – as observed

North: UMET and conservation green belt

South: PR-176

East: UMET and PR-176

West: Auto Repair shop

Shape and Topography

The site shape is irregular, forming an arch with PR-176 at the southwest, split by the Rio Piedras River with the distribution center at the west bank and the outlet store at the east. Its topography is mostly level with a gentle drop to the northeast. The property has approximately 1,600 feet of frontage to PR-176.

Soil & Subsoil Conditions

We were not given a soil report to review. At the time of inspection, we noticed soil erosion stabilization work along the west river bank at the distribution center. The property guide reported that similar work might be required at the east bank where the outlet store is located. The property is appraised under the extraordinary assumption that the soil's load-bearing capacity is sufficient to support existing structure(s).

Drainage

The property appears to have adequate storm drain system that runs northeast towards the Rio Piedras River.

Utilities & Services

Connected utilities include water and sanitary sewer service by the Puerto Rico Aqueducts Authority, adequate electrical power by the Puerto Rico Electrical Energy Authority and telephone service by Claro, previously the Puerto Rico Telephone Company, and mayor carriers. Protection is by state police and the municipal police; fire protection is provided by the State Fire Department. Garbage is collected by commercial private collection companies. Streets are improved with asphalt paving and reinforced concrete gutters and sidewalks.

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Site Description

Access and Links

Main access to the property is thru PR-176; a two-lane street servicing the residential and commercial neighborhood. It is at a short distance east of PR-1, and less than 0.5 miles to PR-18. The two roads intersect the San Juan Metropolitan Area principal roads. PR-18 connects north to Toll Road 22, the main link between San Juan and the northwestern municipalities, east to PR-23 and Toll Road 66 to the east, and connects south to Toll Road 52 or the main access to the Island southern municipalities.

Zoning and Other Legal Attributes

The Zoning Map No. 9D of San Juan, effective March April 22, 2016, classifies the distribution center as property as I-1, Light Industrial, and the Outlet as C-2 or Commercial Central Intermediate.

The I-1 zoning classifies light industrial sectors, excludes residential and some commercial uses. Allowed uses include: most small and light manufacturing facilities, repair shops, distribution and warehousing, hardware stores, recycling collection stations, auto repairs shops, banks, fast food and grocery stores up to 10,000 square feet.

Minimum size lot is 800 square meters or 8,611 square feet, with maximum lot occupancy of 75 percent, 450 percent gross construction area and a maximum height of 6 stories or twice the width of the front road. Patio setbacks vary from 0 meters at the front for the first 3 stories (varies if fronting a residential zoning) to 2 meters or 6.6 feet at the sides (this can if the side patio fronts a street). The rear patio is set at 3 meters or 9.85 feet. The property complies with the zoning parameters and use. Parking requirements will be set by the building area and employees per shift.

In addition to the I-1 zoning, a section of the property northwest corner is within the Tren Urbano Radius Influence Zone. The Tren Urbano is Puerto Rico's newest mass transit system and all proposed construction is directly submitted for approval to the Tren Urbano Planning Division. The influence zone main objectives are; redevelopment of the area, encourage mixed uses and promote mass transportation and better public areas. These objectives are similar to those of Resolution 268 of the Puerto Rico Planning Board. The resolution guides new developments at the area towards higher density mixed use as commercial and residential, considering better and safer pedestrian activities and higher quality of urban design. In order to promote the mass transport system the parking spaces are promoted to the minimum set by the zoning codes, which is contrary to the present trend of providing spaces well above the minimum. Higher densities promoted by this Resolution will also alter the maximum construction and building height criteria at the Sears site. Unfortunately, almost all the proposed high density developments at the prime vacant parcels within the Urban Train Zone were cancelled due to the general market conditions, a high density development in the immediate future is very improbable at the appraised site.

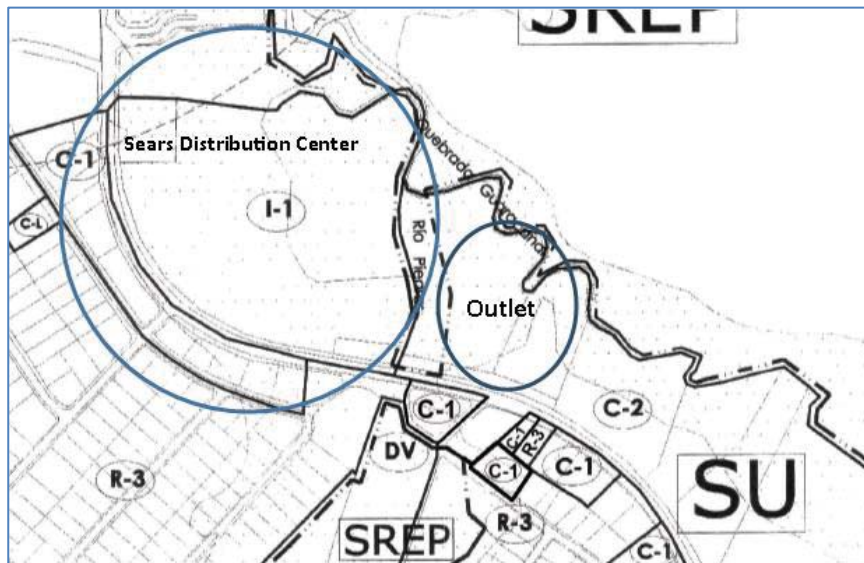
The Distribution center use is legal and conforms to the zoning

Sears Distribution Center #8975

Site Description

The C-2 zoning classifies existing commercial sectors and allows new ones to fulfill the immediate neighborhoods or residential clusters. Allowed uses include: most small retail, service providers, small shops and repair, offices, parking, auto sales and auto parts, furniture and house goods retails and residential.

Minimum size lot is 450 square meters or 4,844 square feet, with maximum lot occupancy of 75 percent, 375 percent gross construction area and maximum height of 5 stories. Patio setbacks vary from 0 meters at the front for the first 3 stories to 2 meters or 6.6 feet at the sides (this can vary with the building height and adjacent zoning). The rear patio is set at 3 meters or 9.85 feet. The property complies with the zoning parameters and use. Parking requirements will be set by the building area. The Outlet store is use is legal and conforming to the zoning.



Zoning Map

Easements, Encumbrances and Legal Restrictions

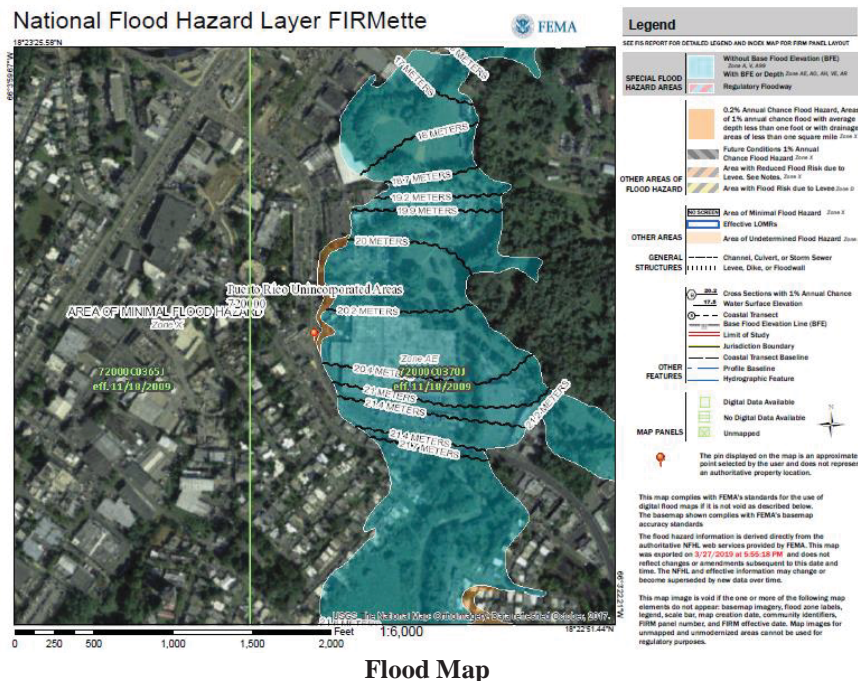
As noted elsewhere in this report, the appraised property is assumed free of easements, encroachments, encumbrances, and any other legal restrictions that could affect the property value.

Flood Zone & Meaning

The property improvements are within a flood zone AE of known flood levels as per FEMA Flood Map No. 72000C0370J, revised on April 19, 2005. The map shows the flood levels between 21.7 meters and 20.2 meters above mean sea level. Flood insurance is mandatory at AE zones. The appraisers are not qualified to determine if the property is above the flood zone level. A review by a qualified professional is recommended.

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Site Description



Hazardous Materials

There are above ground diesel storage tanks for the emergency generators and the fire pump, these are properly installed; no spills were observed. We are not qualified to identify presence of said materials. The services of a specialist are recommended if an environmental audit is required.

Proximity of Hazards and/or Nuisances

None observed.

Environmental Impact

No impact report was available to the appraisers. The value opinions contained herein could be affected by subsequent environmental studies.

Improvements

Sears is improved with two structures with a gross building area is 339,400 square feet. Site improvements include asphalt driveways and auto and containers parking, sewage lift station, storm sewer system, security guard-access controlled and electrical substations.

Units of Comparison

The accepted unit of comparison for light industrial sites is the dollars per square foot or dollar per acre, in Puerto Rico the dollars per square meter is widely accepted.

Conclusion

Sears' site is functional for its present use. It has average light industrial location and access to the main links of the San Juan Metro Area.

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Site Description



View southeast from the roof along the site south boundary fronting PR-176



View northwest from the roof along the site east boundary fronting PR-176

Sears Distribution Center #8975

Site Description



View west along the south north side of the distribution building



View north along the east boundary with the Rio Piedras River

Sears Distribution Center #8975

Site Description



View north of the southwest corner boundary with the Rio Piedras River



Outlet Store south boundary fronting PR-176

Sears Distribution Center #8975

Site Description



View north at the outlet section



View southeast along the north boundary

Sears Distribution Center #8975

Site Description



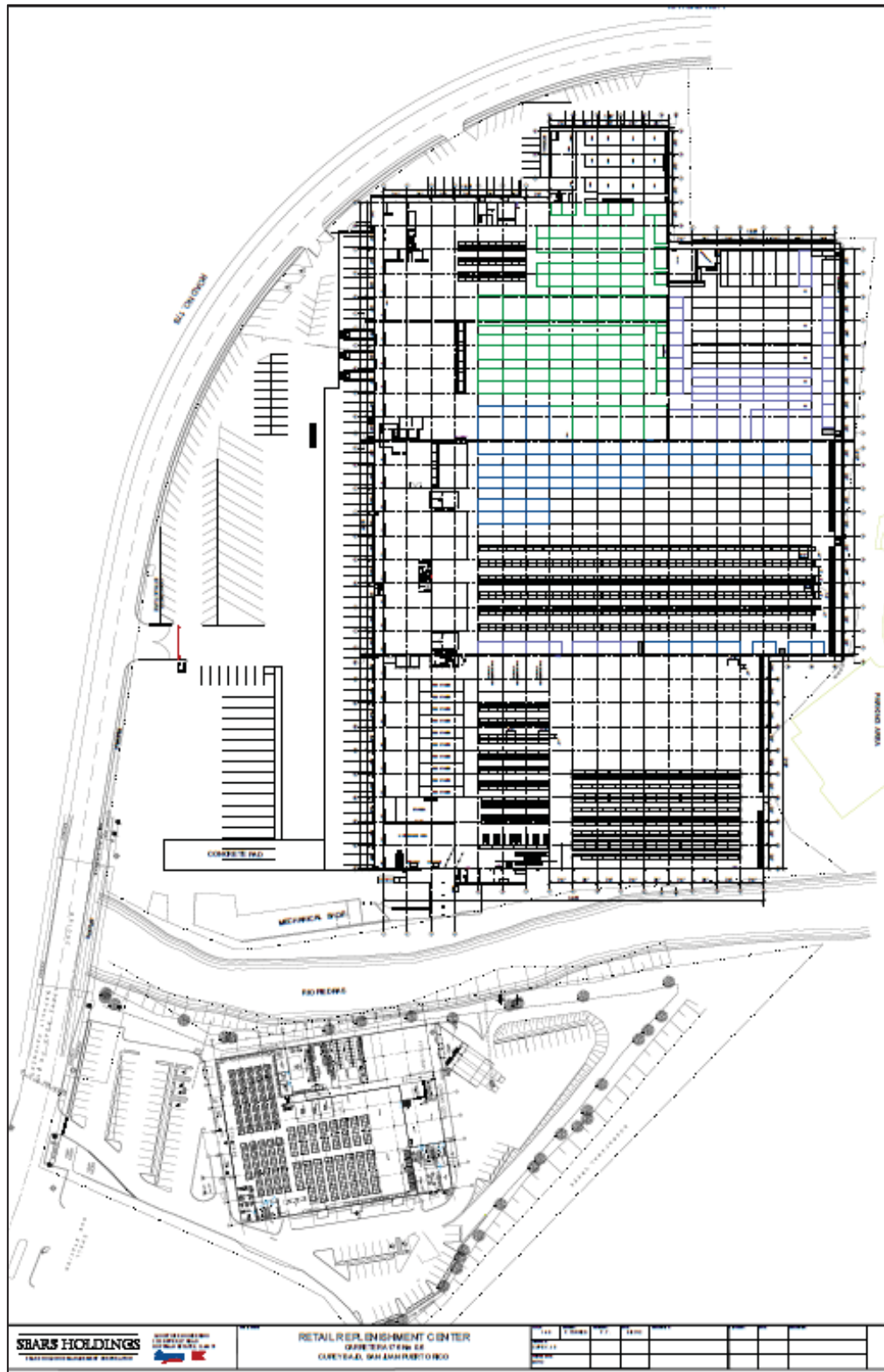
View south along the east boundary



View west along the boundary fronting PR-176

Sears Distribution Center #8975

Site Description



Sears "As-Built" Plan

Sears Distribution Center #8975

Improvements Description

This section describes the improvements to the site. The first part concentrates on the physical characteristics of the structures followed by analysis of the depreciation; physical, functional and external, as applied to them.

Buildings

The property is improved with two main buildings; the distribution center with a floor area of 292,560 square feet and an office mezzanine of 10,368 square feet and the Outlet store with a gross area of 36,472 square feet. The improvements date to the early 1960's. The buildings follow similar construction guidelines, mainly steel columns supporting open web trusses which in turn support a Tekton composite roof deck covered by built-up roofing. The buildings are fully fire sprinklered, including fire water cistern and pumps, and have independent electrical distribution panels and substitution. The distribution building substation is new, replaced after Hurricane Maria. Electrical distribution is adequate for distribution and retail store use.

Class C

As per the Marshall Valuation Service Cost Manual, the improvements are identified as Class C. These are characterized by masonry or reinforced concrete (including tilt-up) construction. The walls may be load-bearing, supporting roof and upper floors, or non-load bearing with open concrete, steel, or wood columns, bent or arches supporting the load.

Building Areas		
Section	Area Sq.Ft.	Total
Distribution Center	292,560	
Office Mezzanine	10,368	302,928
Outlet Store		36,472
Total		339,400

The buildings are in average condition; the distribution office mezzanine has elevator access but the original office areas are outdated.

Summary of Observed Construction Details	
Foundations	Reinforced concrete.
Floor Slab	Hardened, smoothed reinforced concrete. Reinforced concrete flat slab on compacted fill.
Columns & beams	Steel supporting open web trusses.
Roof	Tekton composite deck observed in average condition. Thermo plastic and rigid insulation. Some roof section at the distribution center under repairs with spray-on urethane. General condition is good.
Walls	Concrete blocks, painted in average to fair condition.

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Improvements Description

Doors	Exterior: Metal doors. Distribution center, 25 loading bays with metal and roll-up doors and levelers fronting platform loading dock. Outlet Store. Store front glass doors. Five loading docks with metal roll up doors to loading dock and two metal rolling doors for lift truck service.
Floors	Hardened, smoothed reinforced concrete,
Ceiling	Distribution center 24 feet clearance. Office ceilings at 8Ft. Acoustic tile at office mezzanine. Outlet Store 14 Ft.
Electrical	New high capacity electrical substation with adequate electrical distribution at the distribution center. Adequate electrical substation and distribution at the Outlet Store. Individual meters.
Plumbing	Adequate bathrooms at both buildings. Office mezzanine bathrooms at the distribution center, under repairs.
Illumination	High bay LED at distribution center. High efficiency fluorescent strips at outlet center.
Cooling	Roof mounted package units at distribution center for the office and customer service areas. Exposed duct distributed A/C at the outlet building.
Building systems	Fire sprinklers with fire pump and fire water cistern (below ground). Security monitors. Office elevator at the distribution center. Small cargo lift at the outlet store receiving area. High speed data communications.
Auxiliary Power	350 and 750 KVA emergency generators at the distribution center. One at the outlet store.
Gross Area	Enclosed gross area – 339,400 square feet.
Age	Early 1960's. Effective age estimated at 25 years
Condition	Average

Parking and Site Improvements

Main access to both properties is from PR-176. The distribution center has two accesses, one for customer pick-ups, and the other for trucks and employees. The parking lot is asphalt paved. There is marked parking for 105 autos plus capacity for over 90 containers. The outlet store has its independent access with asphalt paved parking for over 85 autos plus excess paved back patio area for trailer containers and auto parking.

The buildings sites are delimited with a chain link fence. Additional site improvements include pluvial and storm water drains and two independent high capacity electrical substations adequate to support both operations.

The land to building ratio coverage is 1.86:1.

Sears Distribution Center #8975

Improvements Description

Damages by Hurricane Maria

Mr. Melvin Hernandez, our property guide informed us that the electrical substation at the distribution center was replaced, and a northeast section of the roof cover is under repairs. It is assumed that the repairs will be finished at contracted workmanship standards.

Depreciation Analysis

Deferred Maintenance:

This element of depreciation is measured as the cost to restore or repair an item to as new or reasonably new condition. The appraisers did not make a detailed inspection of the structural or mechanical components of the building; we are not qualified to render an opinion as to their adequacy, condition or code compliance. The client is advised to retain an expert if a detailed report is needed.

Both buildings were observed in average condition. The distribution center has several items requiring attention such as: the men office mezzanine restroom, faded parking markings and deteriorated parking asphalt pavement and concrete paved area. Its office section is outdated. At the outlet store, some faded and pealed wall paint, and worn out paved areas.

Functional Obsolescence:

Functional obsolescence may be due to poor floor plan, mechanical inadequacy due to size, style and age. The property has good frontage to the main street to support the two independent operations, but the entrance and egress from PR-186 is difficult for container trailers. A redesign of the access by a professional could probably be addressed.

External Obsolescence:

External obsolescence is caused by factors outside the bounds of the property. The light industrial market experienced a slowdown with a dropped in sales prices, flat rental rates and higher vacancies at most industrial neighborhoods. After Hurricane Maria light industrial properties with adequate site coverage offering parking and trailers area and proven to be resilient are reporting better occupancies, especially those capable of supporting multi-tenant operations.

Economic Life

Economic life is defined as the period over which the improvements to real estate contribute to the value of the property. Effective age, as applied to a structure, is the age of a similar structure of equivalent utility, condition, and remaining life expectancy as distinct from chronological age, the number of years elapsed since an original structure was built. Remaining economic life is the number of years remaining in the economic life of the structure as of the date of the appraisal.

The Marshall Valuation Service Manual lists the typical building life expectancies based on studies of actual mortality condition of survivors, and ages at which major reconstruction or change of occupancy has taken place.

Sears Distribution Center #8975

Improvements Description

For a typical distribution operation, the useful life is 45 years. Effective age for Sears is 25 years with 20 years remaining economic life. Economic life increases with remodeling and repairs of physical depreciation.

Summary

Sears is a distribution operation, it has some deferred maintenance items but it is a good structure adequate for its present warehouse use, and well prepared for intensive and effective distribution operations.



Distribution center south side fronting PR-176



Northeast wall sections

Sears Distribution Center #8975

Improvements Description



Forklift service area at west side



View west along the loading dock platform



View east

Sears Distribution Center #8975

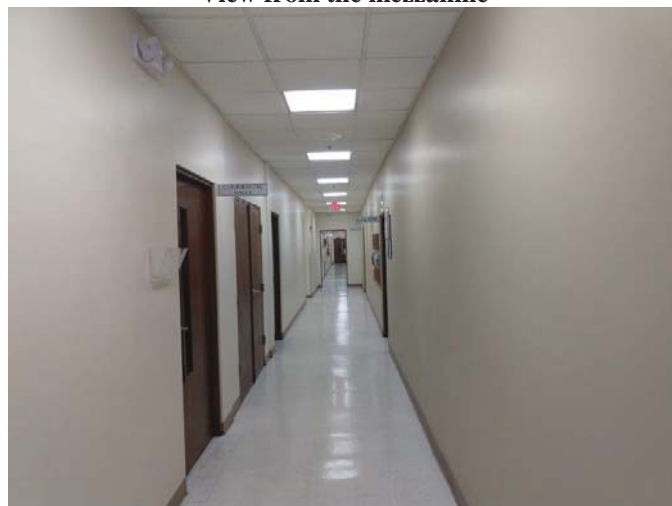
Improvements Description



North section



View from the mezzanine



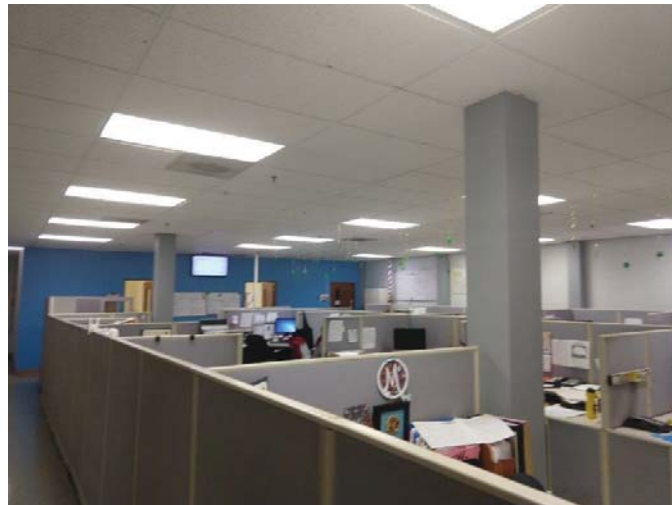
Mezzanine office corridor

Sears Distribution Center #8975

Improvements Description



Typical mezzanine office



Sears Home Services Call Center



Customer order picking waiting room

Sears Distribution Center #8975

Improvements Description



Roof



Roof Repairs



Indoor emergency generator

Sears Distribution Center #8975

Improvements Description



New electrical substation and emergency generator



Outlet Store south side fronting PR-176



North side

Sears Distribution Center #8975

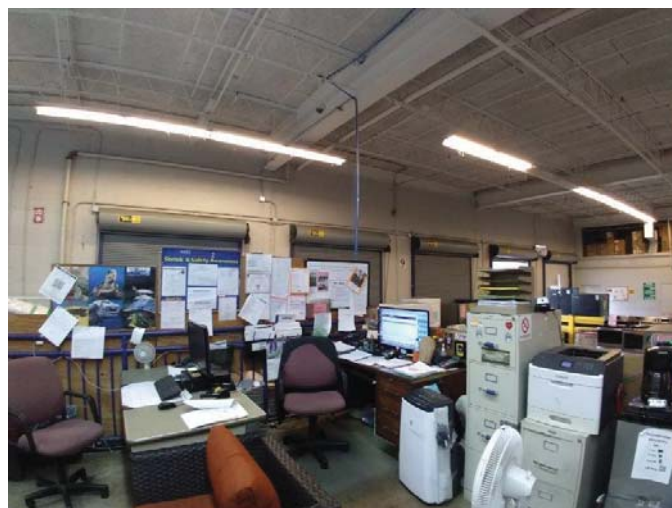
Improvements Description



Showroom



Showroom



Receiving

Sears Distribution Center #8975

Improvements Description



Appliances troubleshooting area



West side generator and electrical substation

Sears Distribution Center #8975

Tax and Assessment Analysis

The property tax is imposed on the full-assessed valuation of real and personal property. Current tax rate for the San Juan Municipality is 10.33 percent (2018 – 2019) of assessed value, with small increases over the past years. This tax rate is similar to that of the surrounding municipalities such as Carolina, Guaynabo and Bayamón.

All taxable property in Puerto Rico was reassessed during the period of 1949 to 1951. Personal property assessments are revised annually. The last assessment of real property was made in 1957-1958. Current real property assessments are based on these 1957-1958 values.

Property assessment, revaluation and collections are function of the CRIM (Centro de Recaudación de Ingresos Municipales). The CRIM acts as a service agency of the Island's municipalities.

There is no fixed table of real estate tax rate increase; each municipality determines its rate and when to increase it. Real estate tax percentage increase is typically less than 0.2 percent per year, with most municipalities stopping at 11 percent.

Municipality	Fiscal Year										Change/Yr
YEAR	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
San Juan	8.83%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	0.15%
Carolina	9.08%	10.08%	10.08%	10.08%	10.33%	10.33%	10.33%	10.33%	11.33%	11.33%	0.23%
Guaynabo	9.58%	9.58%	9.58%	9.58%	10.08%	10.08%	10.08%	10.08%	10.08%	10.08%	0.05%
Bayamon	8.58%	9.08%	9.08%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	9.58%	0.10%
* Change/Yr since 2009											

A provision of the Puerto Rican law allows a taxpayer a discount for prompt payment of real or personal property taxes. Description of the discount follows.

- 1) A 10 percent of the total tax, if the total amount is paid in full within 30 days of the date of notification.
- 2) Five percent of the total tax provided the amount is paid in full later than 30 days, but not exceeding 60 days of the date of notification.
- 3) Ten percent of semester, provided the first semester is paid within 30 days from the date of notification, and the second semester is paid within 30 days following January 1, of the fiscal year in which the taxes are levied.

Property assessed value is determined when new construction is reported, sometimes lapsing more than five years to receive the final assessment. This forces property owners to establish a reserve and contend the possible fines and penalties. Reassessment of property values is not typically accomplished.

The Real Estate Tax Table summarizes the property tax assessment and annual payment. From the tax information provided by the CRIM web page.

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Tax and Assessment Analysis

In the Income Approach section, we consider a real estate tax payment of \$219,980.97 rounded to \$220,000.00 or \$0.65 per square foot. The property is appraised free and clear of debts.

Real Estate Tax Table							
Tax No.	Lot	Assessed Land Value	Assessed Structure Value	Assessed Machinery Value	Total	Rate	Payment
087-061-851-37-001	Distribution	\$210,060	\$1,816,940	\$0	\$2,027,000	10.33%	\$209,389
087-061-058-07-000	Distribution	\$81,650	\$257,500	\$0	\$339,150	10.33%	\$35,034
							\$244,423
				Less 10%			\$219,980.97
				Rounded to			\$220,000.00
				Per SQ.FT.			\$0.65

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Appraisal Process

Up to this point, this report describes the physical, legal and location attributes of the appraised property and its neighborhood. The next sections analyze the data to determine the appraised property's highest and best use, select and develop the appropriate valuation tools and reconcile them into a final value estimate.

The Appraisal Foundation defines appraisal as: the act or process of developing an opinion of value. The Sales Comparison, Income Capitalization, and Cost approaches are the traditionally accepted techniques that appraisers may use to estimate the value of real estate. Although we consider each approach to value, in appraisal practice an approach is included or excluded based on the analysis of the appraised property, its physical, legal, economic attributes, present and or proposed highest and best use, and estimate of the potential market and effective demand. The relevancy of each approach is limited by the availability and comparability of market data.

Development of the approaches used can result in different value indications. If more than one approach is used, the valuation process is concluded by analyzing the quality and quantity of the approaches, their consistency with the appraisal problem and the real property interests being appraised. This analysis results in reconciliation into a final value estimate.

The *Fourteen Edition of The Appraisal of Real Estate* defines the three approaches to value as follows.

Cost Approach

A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised.

Income Capitalization Approach

In the income capitalization approach, an appraiser analyzes a property's capacity to generate future benefits and capitalizes the income into an indication of present value. The principle of anticipation is fundamental to the approach. Techniques and procedures from this approach are also used to analyze comparable sales data in the sales comparison approach and to measure obsolescence in the cost approach.

Sales Comparison Approach

The process of deriving a value indication for the subject property by comparing similar properties that have recently sold with the property being appraised, identifying appropriate units of comparison and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being

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Appraisal Process

considered as though vacant when an adequate supply of comparable sales is available.

Application of the Value Approaches to the Appraised Property

The appraised property is improved to support a distribution operation. Highest and best use analysis coincides with its light industrial use. The Sales Comparison Approach shows the activity of the market place and is considered the best value indicator. The Income Approach as developed for the property is based on market rates for distribution centers, warehouses facilities and potential rents for the outlet store. The Cost Approach is adequate when the structures are relatively new and with minimal obsolescence. Because of the market conditions and difficulty in estimating the obsolescence, the Cost Approach is not typically addressed by buyers.

San Juan Metropolitan Industrial Space Analysis

The *Dictionary of Real Estate Appraisal*, defines market analysis as a process for examining demand and supply of a property type and geographic market area for that property type. The market analysis is used for two crucial parts of the appraisal: highest and best use analysis and application of the approaches to value. The conclusions drawn from the application of this process are of great importance to the highest and best use analysis as they provide an estimate of the economic demand for a particular real estate product.

In addition, the market analysis process derives the economic demand data used in the applicable approaches to value. Since the property is valued at its highest and best use, the economic demand and subject capture forecast used in the highest and best use analysis must be applied consistently in the approaches to value. Furthermore, the market analysis helps identify comparable sales for the appraised property.

There are no local or Island surveys that monitor the various real estate markets, some local investors and key players of the real estate market keep close attention to the national surveys such as the PwC, and keep special attention of the better located properties where competition and continued demand help sustain real estate prices, and rental potentials.

These participants focus on the type (Class A, B and C) and location of an industrial. While the criteria relative to defining the asset type vary, most agree on the following, as defined by Costar Group Inc.:

Class A Industrial – Class A buildings generally qualify as extremely desirable investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high-quality, and in some buildings, one-of-a-kind floor plans. These buildings contain a modern mechanical system, and have above-average maintenance and management, as well as the best quality materials and workmanship in their trim and interior fittings. They are generally the most eagerly sought by investors who are willing to pay a premium for quality.

Class B Industrial - Buildings in this category command lower rents or sale prices compared to Class A properties. Such buildings offer utilitarian space without special features, and have ordinary design or, if new or fairly new, good to excellent design. These buildings typically have average to good maintenance, management, and tenants. They are less appealing to tenants than Class A properties, and may be deficient in a number of respects, including floor plans, condition, and facilities. They lack prestige and must depend chiefly on a lower price to attract tenants and investors.

Class C Industrial – These structures generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the market. Such buildings typically have below-average maintenance and management, and could have mixed or low tenant prestige, low clear ceiling heights, and/or inferior

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Light Industrial Market

mechanical/electrical systems. These buildings lack prestige and must depend chiefly on a lower price to attract tenants and investors.

As for the industrial real estate market, especially manufacturing, The Puerto Rico Industrial Development Corporation or PRIDCO sets the trend, as it was created to promote and develop industrial manufacturing operations in the Island. PRIDCO is the largest developer, owner and lessor of industrial properties and subdivisions through the Island. PRIDCO sponsors, supports and promotes the main industries established in Puerto Rico, including offering attractive rental rates as manufacturing incentives.

Warehouse and distributions centers were primarily originally located near the port's area, later displaced by the commercial expansion thru the neighborhoods. This also affected the older light industrial manufacturing parks created by PRIDCO transforming them to support commercial and distribution activities. This commercial pressure throughout the metropolitan area pushed and fueled the creation of large clusters for warehouse and distributions centers along the northern municipalities of San Juan, Bayamón, Guaynabo, Cataño, Toa Baja, Carolina, and central Caguas, mostly along the main roadways to these municipalities, which are Road 1 leading to Caguas, Road 2 and Toll Road 22 leading to the northern municipalities and Road 3 leading to Carolina. Overall these municipalities contain over 18 million square feet of warehouse space, with many not up to today's modern standards.

Main rental warehouses Class A and B, include Royal Palm at Cataño with over 1,600,000 square feet and estimated vacancy now at 8 percent, of course due to its large size and number of buildings vacant space is created by pockets sometimes difficult to rent. CPG at Puerto Nuevo Distribution Center in Cataño has 440,000 square feet of leasable space with approximately 5,000 square feet vacant. The government sponsored Centro Mercantil Internacional, offers free zone trade and good facilities, it has 8 main buildings with over 1,200,000 square feet of leasable space at 98 -99 percent occupancy due to its below market rents. San Juan Industrial Park is a 10 year old distribution center with approximately 520,000 square feet of rentable area, two fast food pad plans for future commercial space fronting PR-1. The warehouse space was originally conceived to be owner, latter entering the leasing market is now approximately 95 percent occupied, including a long term lease with FEMA.

Centro de Distribution Amelia at Guaynabo is a fine Class A center, but mostly improved with owner occupied buildings some designed to meet the owners particular needs, conveying potential obsolescence to alternative uses, like the Supply and Service property or the GFR Print Shop building sold at relative lower prices.

Contrary to the lower class warehouse space, Class A buildings with good construction, good ceiling clearance, large truck apron areas, good support for 53' containers, good parking, good loading docks and building systems rental rates are at high side of the market rates indicate that there is a market sector requiring better distribution facilities not readily found in the many of the current offering.

Location is also one of the main reasons of the economic stability and properties market appeal of Barrio Palmas and Luchetti sectors is their proximity to the ports areas of Cataño

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Light Industrial Market

and Puerto Nuevo which translates to lower container transportation costs and faster cargo movements. Increases in operations costs have forced distributors and logistics operators to reconsider relocating back closer to the ports in lieu of higher rental rates.

Lower rents and higher vacancies are reported at lower Class C properties like Charlyn Industrial, at Carolina. CPG properties at Carolina show a mix of Class B and C properties with higher vacancies, but at better market rents.

Other than these large conglomerates most of the rental warehouses range from 75,000 to 120,000 square feet. The next table lists competing warehouse space, their general leasable areas and general market terms.

Main Rental Warehouses							
Municipality	Location	Name	Buildings	Leasable Area	Estimated Vacancy	Construction	Rents
Cataño	Palmas	Royal Palm	10 to 12	1,600,000	8.0%	Steel 26 - 30 Ft. high	\$8.00 - \$9.00
	Palmas	CPG	2	440,000	1.5%	Precast 26 - 30 Ft. high	\$9.00 - \$11.00
	Palmas	Centro del Norte	2	40,000	0	Steel 26 - 30 Ft. high	\$8.50
	Palmas	Matias Fernandez	5	250,000	6%	Varies among buildings	\$8.00 - \$14.30
Carolina	Ceramica	CPG	7	740,000	22%	Varies among buildings	\$5.50 - \$8.50
	Sabana Abajo	CPG	5	540,000	19%	Varies among buildings	\$5.00 - \$6.50
	Victoria	CPG	2	215,000	28%	Varies among buildings	\$5.50 - \$8.70
	Sabana Abajo	Charlyn Industrial*	N/A	400,000	20%	Varies among buildings	\$4.00 - \$5.00
Bayamón	Luchetti	Hershey's - Advance Auto	1	95,000	12%	Precast 30 Ft. high	\$8.70 - \$13.00
	Corujo	Different owners	6	650,000	15%	Varies among buildings	\$6.50 - \$8.00
	Hato Tejas	CPG	3	260,000	0%	Precast 26 - 30 Ft. high	\$4.00 - \$10.50*
Guaynabo	Amelia	New Port	5	230,000	0%	Varies among buildings	\$8.50 - \$10.00
	Road No. 165	New Port	1	77,500	0%	Precast 30 Ft. high	\$11.00
San Juan							Office \$20.00
	Centro International	8*Government sponsored	8	1,200,000	4%	Mainly steel 24 Ft.	\$7.25 - \$9.00
	Arenas	San Juan Industrial	2	520,000	5%	Precast 30 Ft. high	\$11.00 - \$14.00
	Arenas	Ramallo International	2	400,000	N/A	Partially occupied by owner, not accounted for the vacancy	FEMA \$21.50
				7,657,500	9.64%		

* High side accounts for 50% of the area on a 1 year lease with FEMA

*8 Excludes 2 buildings damaged by Hurricane Maria

Most of the listed properties are good warehouses, some with older shells but not properly prepared to support good distribution operation combining shipping, receiving and staging. In addition, most of them have difficulty handling 53' containers, have minimum auto parking and do not have 30' high ceilings.

Typically, large distribution centers are privately owned with the majority housing the main Island food distributors like V. Suárez, Ballester Hermanos, Santiago Hermanos and Méndez among others. Size of these distribution centers range from low 100,000 to 250,000 square feet with most of them of good construction. Large retailers like Walmart, Walgreens and Home Depot lease space and use large logistics companies to manage their warehousing needs. Walmart put on hold the construction of a distribution center when it acquired Amigo forced by government and public opinion concerning monopolistic practices, but has never abandoned the idea. This leasing and outsourcing of logistics operations is now more common with large pharmaceutical companies Baxter and Pfizer are now also changing from owner operated distribution center to leased or logistics operated centers.

Warehouse market space requirements are driven by retail sales, imports, exports and marine and air cargo movements. Import and export overall trade indicators show

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Light Industrial Market

relatively small increases in the past years, a trend that shouldn't affect immediately warehouse space requirements. The harsh reduction of the manufacturing sector during the early to mid 2000's left available several hundred thousand square feet of manufacturing buildings all over the Island sold at relative low prices including some liquidated at ridiculous prices that started to compete with warehouse and retail space causing a leakage of tenants looking for lower rents and even the opportunity to be owners, causing the terms reductions at the traditional warehouse sectors. Decrease of the construction activity displaced construction yards and warehouses for alternative uses.

Contrary to older structures, the newer buildings with, good construction, 34 feet ceiling clearance, large truck apron areas, good support for 53' containers, parking, loading docks and building systems like the one recently occupied by at Luchetti and the 420,000 square feet leased at San Juan Industrial Park both at high side of the market rates indicate that there is a market sector requiring better distribution facilities not readily found in the current offering.

Past expansions of Walgreens, Burlington, Marshalls, CVS and other major retailers increased the need for storage by their logistics managers, with the better warehousing facilities such as CPG -Cataño and Centro Internacional reporting report better occupancies over past years but still finding difficult to attract new tenants, with flat or minimal rate increases at renewals and even some rate reductions.

Up to late 2017 the Puerto Rico the retail and distribution market was at a plateau with low growth perspective after several large US retailers placed on hold their expansion plans such as Walmart and Home Depot, Target and Lowes decision not to enter the local market, and general reduction of retailers consequence of e-commerce.

After Hurricane Maria general vacancy is at the lowest of the past 10 years fueled by FEMA temporary leases, and a surge of required warehouse space for the Island recovery process. Projected new housing construction needed to displace substandard housing will also trigger warehousing needs for materials, furniture, appliances and house goods for the next three to five years. Hurricane Maria generated additional questions about the quality and quantity of the available and required warehouse space as many retailers agreed that they are stocking below levels due to municipal taxes and lack of availability of adequate and efficient warehouse facilities. Potential elimination of the inventory tax will increase in the long run the demand for good space. Reliability and resilience of warehouse facilities is now a new concern and utmost importance for warehouse and retailers' users.

In conclusion, commercial activity within the core of the SJMA looks for efficiency increases, lean operations and better access to main roads. This has a positive effect in well located and good facilities similar to the Sears Distribution Center that will be able to compete with Class B centers, offering an average distribution location, good distribution capacities and resilient structure.

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Highest and Best Use

The *Dictionary of Real Estate Appraisal, Sixth Edition* defines highest and best use as: the reasonably probable and legal use of vacant land or an improved property, that is physically possible, appropriately supported, financially feasible, and that results in the highest value. Economic considerations and market forces as applied to the appraised property dictate its highest and best use. The analysis provides the foundations for selecting and developing applicable valuation techniques. A property's highest and best use indicates its potential market, effective demand, absorption or rent up period and possible obsolescence; and sets the basis for selecting; adequate units of comparison, and sales and rental comparable properties used to estimate market value.

Highest and best use of a property must meet four criteria: *legally permissible, physically possible, financially feasible and maximally productive*. This section selects a highest and best use for the appraised property by adequately supporting these four criteria. Considering the appraised property as if vacant and as improved; the physical, legal and location attributes described in the preceding sections show a number of legally permissible and physically possible uses. Development of *market study* supports financial feasibility and maximum productivity and lead to the conclusion of highest and best use.

Highest and Best Use Analysis of Land or a Site as Though Vacant

The *Dictionary of Real Estate Appraisal*, defines the highest and best use of land or site as though vacant as: among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.

Legally possible - The subject is zoned light industrial and C-2 Commercial Central Intermediate. Permitted uses within this district include office, retail, light industrial, auto service and various commercial uses. In addition to the I-1 zoning, a section of the property northwest corner is within the Tren Urbano Radius Influence Zone and any development plans must be submitted for approval by the Tren Urbano Planning Division. We are not aware of any further legal restrictions that limit the potential uses of the subject. In addition, rezoning of the site is not likely due to the character of the area.

Physically possible - The site has adequate size for distribution or warehouse facility. General location and access allow these uses. The property large frontage to PR -176 allows to accommodate almost any use within the zoning codes. any No easements are evident at the effective date of this report except the typical utilities. The site has access to all public and private utilities. Therefore, there are no physical limitations to prevent development of the subject's current use on the site.

Financially possible and Maximally Productive. The site's light industrial use operation is of maximum productivity.

The current use as highest and best use for the vacant site is physically possible, economically feasible and compatible with the neighborhood. The highest and best use of the property as improved will now be analyzed.

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Highest and Best Use

The Highest and Best Use of the Property as Improved

Legally possible - The buildings comply with the zoning parameters, with no encroachments. The property is legally possible.

Physically possible - The subject improvements maximize the construction area and offer buildings with good ceiling height, good loading docks access, but with some deferred maintenance. The distribution center has limited and difficult truck trailer entrance that could be improved with an access as it has good frontage to PR-176. Both buildings contribute to the property value.

Financially feasible - Current rents and sales of similar distribution centers support the current use. Rents for cold areas support the financial feasibility of the improvements. Replacement costs of cold storage facilities are now well over \$2000 per square foot which leaves economic room for the current facility.

Financially possible and Maximally Productive. The property market value is adequate to support its current use as the lack of new construction or re-developments show no immediate demand for large vacant parcels.

Conclusion

The appraised property is a combination of an average distribution center and outlet or showroom store, both structures with individual access and all utilities which add further flexibility to the property potential users or tenants. The buildings contribute to the property value, with the highest and best use conclusion is its continued use as a light industrial/store facility.

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Income Capitalization Approach

The *Dictionary of Real Estate Appraisal, Fifth Edition* defines the Income Capitalization Approach as: In the Income Capitalization Approach, an appraiser analyzes a property's capacity to generate future benefits and capitalizes the income into an indication of present value. The principle of anticipation is fundamental to the approach. Techniques and procedures from this approach are also used to analyze comparable sales data in the Sales Comparison Approach and to measure obsolescence in the Cost Approach.

Investors purchase income producing real estate based on the property's earning power. In essence, the buyer trades present dollars for the expectation of future monetary benefits. The Income Capitalization Approach analyzes and estimates these benefits and converts the results into present dollars. A market-oriented analysis results in a property value estimate that reflects the decision making process performed by a typical, well informed potential buyer. Definitions included later, summary of the procedure follows:

- Select the appropriate capitalization process
- Develop an estimate of the potential gross income (PGI)
- Effective gross income (EGI) = PGI - vacancy & collection loss
- Estimate the total operating expenses
- Net operating income (NOI) = EGI - total operating expenses
- Development of the capitalization process (direct or yield)

Selection of the Capitalization Process

Capitalization is the process of converting income into value. Direct capitalization converts a single year's income; while yield capitalization discounts forecast future cash flows over a projection or holding period, into present property value. Market characteristics and present or projected rental conditions at a property suggest which process to apply. *Direct capitalization* best suits the appraisal of properties where income is either difficult to forecast; or stabilized over the projection period. *Yield capitalization* applies to the appraisal of properties subject to lease agreements or those where future cash flows can be accurately forecasted.

The Sears distribution center building is owner occupied with the outlet center, leased to Sears Outlet Stores, LLC, an affiliate corporation. No information was provided as to the lease status and it is not considered in this report.

Potential Gross Income

Market Rent

Market rent is defined in the Appraisal Dictionary as follows.

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

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Income Capitalization Approach

1. Lessee and lessor are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market.
4. The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract.
5. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.

The potential gross income is generated by two main elements:

Minimum base rent and reimbursement of expenses incurred in the center operation. The minimum base rent is the leased base. The lease terms also dictate specific expense reimbursement charges that can be billed to the tenant.

Types of Leases

In addition to base rent, tenants at good warehouses or distribution centers and facilities similar to the outlet store reimburse the landlord specific expenses. Generally, the leases are structured on a triple net basis, whereby the tenants are responsible for their pro-rata share of all operating expenses including real estate taxes, insurance, common area maintenance (CAM). Tenants are responsible for their utilities' payment.

Analysis of Comparable Rents

The following table lists the most comparable building rentals.

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Income Capitalization Approach

Comparable Rentals - Distribution and Multi-Tenant Centers						
Property/Tenant	Area (Sq. Ft.)	Occupancy Tenant% / Building Occ.	Lease Term	Rate/Sq.Ft.	Reimbursements	Comment
1 GFR Warehouse	65,400	100%/100%	Sep 2016 - 10 Yrs.	\$6.25 increasing 2%/yr.	Starts at \$1.50 Increasing \$0.25 in years 2 and 3, 2% increase after year 5	Located at Amelia Distribution, good 30 ft. ceilings. Low parking ratio
2 ALC Carolina/Curtis	92,100	100%	Jan 2016 - 10 Yrs.	\$7.25 increasing 1.5%/yr.	Starts at \$1.71 Increasing \$0.05 per year	Sabana Gardens Industrial Pre-cast 25 ft. 46% coverage
3 CPG Hato Tejas	262,252	3 buildings 100% / Five Tenants Occ.	Varies from 1 year high side to 5 years	Avr. \$7.68, increasing 2.5% Year	Net (\$1.85)	Precast concrete buildings, close to PR-22 Toll Road
4 CPG Victoria	215,548	3 buildings 80% / Eight Tenants Occ.	Varies from 2 years to 10 years	Avr. \$6.13, increasing 2.0% Year	Net (\$1.85)	Precast concrete buildings, located at PR-3, inferior location
5 Empresas Loyola/ PR labor Dept	90,440	100%	Renewed 04/17- 5 Yrs.	\$9.25 Gross or \$7.65 Net, Precast over 50% office Hato Rey Industrial		
Comparable Rentals -Single Tenant - Light Industrial Commercial						
1 San Juan Bay/Cummins	26,000	100%	Amended July 2018	Rate \$13.00 increasing 2% year, Net		Cataño Industrial, good access to ports Service building
2 San Patricio Plaza/Office Depot	28,256	100%	10 Yr. Lease	Adjusted flat rent of \$18.00 plus \$4.00 Opex		Self standing remodeled light industrial building to retail store. Best location
3 Muebletric/AGM University Tech	31,201	100%	20 Yr. lease	Now at \$16.00 increasing to \$17.00 in 2023 Net		Corner of PR-1 and PR-176 Excellent commercial
4 National Hardware/Pitusa	39,000	100%	10 Yr. Lease	Adjusted to \$8.00 Net		Close to the subject at the south marginal street to PR-1
5 Berrios Furniture	39,000	100%	10 Year Lease	Rent \$7.20 Net.		Close to the subject at the south marginal street to PR-1

The Sears distribution physical and location characteristics sets it to compete between Class B and C type centers, best represented by the rents 2 and 3. Rent 2 is a smaller building, close to the airport, with better ceiling clearance but lacks the trailer and parking area of the subject. Rent 3 is formed by three buildings supporting multitenant operations, all with good ceiling height, adequate trailer parking and in a more homogeneous light industrial park. Rent terms are typically 5 years, with the base rent increasing from 1.50 to 2.50 percent per year, on a net basis, with the expense reimbursements ranging from \$1.75 to \$1.85 per square foot. Because the large size of the Sears distribution center we conclude a net rent of \$7.25 per year with a 2.00 % increase per year.

The outlet store is a small warehouse retail operation, the building lacks of good commercial location or exposure, but has good parking area and adequate access. The lower side of the market presented market rents are two light industrial buildings, one housing a hardware the other a furniture store, both less than half a mile north of the subject, fronting PR-1, and close to the intersection with PR-176. Even though their better exposure they lack of adequate parking to maximize their commercial potential. Rent 3 is at the corner of PR-176 and PR-1 has excellent commercial exposure, its across Urban Train Cupey Station extremally appealing for its current trade school use. Rent 1 is the Cumming Service center, outside high commercial area, but offering good building heath, excellent auto and trailer parking adequate for a similar operation. We conclude the rent for the outlet store at \$14.00 per square foot slightly above the Cummins center.

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Income Capitalization Approach

Market Rent Conclusion

Market Rent Conclusion					
Area	Description	Sq.Ft.	Increase	Terms	Subtotal
302,928	Distribution Center	\$7.25	2%/Yr	5 Yrs	\$2,196,228
36,472	Outlet Store	\$14.00	2%/Yr	5 Yrs	\$510,608
339,400				Total	\$2,706,836

Reimbursable Expenses Revenue

The contractual lease obligations of the tenants specify that certain operating expenses are reimbursed to the landlord. Generally, these operations, reimbursing for CAM, insurance and real estate taxes.

Effective Gross Income

The potential gross income is the sum of the rental income and the expense recoveries. The vacancy and collection loss is deducted from total income to produce the effective gross income.

Vacancy and Collection Loss

The vacancy is related to the frictional vacancy that prevails at the effective date in the market area while collection loss is related to unpaid rent or rent default, among others. The market analysis indicates that the vacancy rate in the market area is approximately 9.62 for general warehouses. Reported collection loss at these operations is minimal. Considering the combined operation of the distribution center and the outlet store the vacancy and collection loss is concluded at 9.60 percent

Recoverable Operating Expenses

Real Estate Tax

As per the Tax Assessment section of the report the expense is concluded at \$220,000.

Insurance

General warehouse hazard premiums range from \$0.15 to \$0.25 per square foot. of \$99,047. No information was provided as to the present premium for the property. All insurance payments have experienced rate hikes after Hurricane Maria ranging from 30 to 100 percent with the highest increased experienced by shopping centers. We estimate \$0.30 per square foot per year.

CAM

These are the minimal expenses that the landlord will have to incur during downtime, but will be reimbursed or incurred by the tenant latter. Included are security, minimal maintenance, extermination, cleaning, minimal utilities (contracted load), and equipment service contracts. This expense is estimated at \$0.90 per square foot

All the reimbursable or recoverable expenses are estimated at \$1.87 per square foot within the reported market range.

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Income Capitalization Approach

Recoverable Expenses		
Item		PSF
R.E. Tax	\$220,000	\$0.65
Insurance	\$101,820	\$0.30
Operating	\$305,460	\$0.90
	\$627,280	\$1.85
Market Expenses Range		\$1.75 - \$1.85

Non Reimbursable Expenses

Management

Management charges are proper expenses of the operation, whether management services are contracted or provided by the property owner. This expense is charged to the tenants as part of the administration fee. The charge is based on 3 percent of the base income rental because of the property complexity.

Reserves for Replacements

Competitive management is aware of future property repairs or replacements of mayor equipment or building components establishing a reserve or allowance. For light industrials properties this allowance generally ranges from \$0.20 to \$0.40. Because of the minimal equipment and property type the allowance is set at the low side or \$0.20 per square foot.

Net Operating Income

The *Dictionary of Real Estate Appraisal, Sixth Edition* defines net operating income as: The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted; may be calculated before or after deducting replacement reserves. This income is the periodic, bottom line benefit the appraised property will derive from the rental operation.

Capitalization Rate

The use of an overall rate, the direct ratio between the annual net operating income and a sales price, is considered a reliable indication of value when the income generated by the property takes the form of a stable income stream.

Sears Distribution Center #8975

Income Capitalization Approach

Recorded sales of light industrial thru the San Juan metro area point to a cap ate range from 9.5 to 10 percent. GFR Media sold two of its properties with the cap rates pointing south of the 10 percent cap rate, one of them included a long term leaseback and the other a shorter term rental. Desarrollos Inmobiliarios developed the Nestle property with a cap rate of close to 10% but some of the income was attributable to the older structure, remodeled for their office reducing the overall cap rate. Industrial rental rates were showing small increases, slowly recovering from the past years slip. After Hurricane Maria, the shortage of storage space became evident with good warehouse buildings occupancy and rates increasing at a faster rate, of course a longer effect on rates and occupancy is difficult to project.

National overall cap rates point to a lower range due to the mainland increase in the manufacturing and distribution activities.

Pwc National Warehouse Market		
Fourth Quarter 2018	Range	Average
Discount Rate	5.25% - 9.00%	6.33%
Overall Cap Rate	1.00% - 6.50%	4.96%
Residual Cap Rate	4.50% - 6.75%	5.51%

Most properties are purchased with debt and equity capital; therefore, the overall capitalization rate must satisfy the market return requirements of both investment positions. The lender/mortgagee must anticipate a rate of return that is appropriate for the investment's perceived risk in order to make the loan; the loan principal is typically repaid through periodic amortization payments. The equity investor/mortgagor must also anticipate a rate of return that is commensurate with the investment's perceived risk or they opt for an alternative investment. Thus, we analyze capitalization rates for debt and equity.

Local market financing terms for a similar property are 70 – 75 percent loan to value, for good clients the banks are offering 6.00 percent interest on a 20 years payout with a five years balloon payment. Standard payout term is twenty years or less. An equity yield rate of twelve percent is concluded due to the property type.

Puerto Rico investor's typically command higher rates, as seen in past transactions. Confidential private offerings of well tenanted

multitenant warehouses also point north of 9.00 percent. After taking into consideration the property size, above the typical Island property, and considering the riskier investments of the Puerto Rico market, we have concluded a 10.00 percent cap rate as the best indication for income approach calculation.

Band Of Investment			
Loan to value	75.0%		
Loan Interest Rate	6.00%		
Loan Term	20 Yrs		
Equity Dividend Rate	12.0%		
Ballon	5 Years		
Band Of Investment			
Debt	0.085972	0.75	0.064479
	0.120000	0.25	0.030000
			0.094479
Cap Rate =			9.5%

Sears Distribution Center #8975

Income Capitalization Approach

INCOMETABLE I - Sears "As if Leased"				
I - Potential Gross Income				
302,928	Sears	\$7.25	\$2,196,228	
36,472	Outlet	\$14.00	\$510,608	
339,400				
			<u>\$651,703</u>	
				\$3,358,539
II - Effective Gross Income				
9.50%	Vacancy & Rent Loss			(\$319,061)
	Effective Gross Income			\$3,039,478
III - Operating Expenses				
<i>Recoverable</i>				
R.E. Tax		\$0.72	\$244,423	
Insurance		\$0.30	\$101,820	
CAM Operating		\$0.90	\$305,460	
				\$651,703
<i>Non Recoverable</i>				
Management (% of EGI)		3%	\$91,184	
Replacement Reserve		\$0.20	\$67,880	
Total Expenses :				\$810,767
IV - Net Operating Income				\$2,228,710
V - Value by Income Approach				
		10.00%	10.00%	
MV = NOI / R				\$22,287,105
Rounded To :				
VI - Value				<u>\$22,300,000.00</u>

Value via Income Approach

---\$22,300,000---

Twenty Two Million Three Hundred Thousand Dollars

Market Value as if Vacant

We also developed an opinion of Market Value as if vacant, under the premise that a buyer would adjust the value for the cost to lease up the space. At current market conditions, the costs associated with leasing the property to a stabilized occupancy level are calculated based upon an 18 month lease-up period.

Therefore, the costs borne by the property owner over the assumed lease-up period would include the following:

Rent loss over the lease-up period.

Operating Expenses (Common Area Maintenance, Insurance, Real Estate Taxes and Management over the lease-up period.

Leasing Commissions - the cost of paying a broker to lease the property.

Additional risk or the profit required by an investor who takes on the lease-up risk.

Sears Distribution Center #8975

Income Capitalization Approach

We applied the yield required on cash to the rent and receivable shortfalls during the leased up (income shortfall for space to be leased up \times equity yield percentage).

The total lease-up costs are deducted from the Market Value at stabilized income, as summarized in the following table:

Market Value "As if Vacant"	
Market Value at Market Rents (Unrounded)	\$22,316,937
Yearly Rent	\$2,706,836
Expenses	\$627,280
Assumed Average Lease-Up Years	1.5
Deductions	
Rent Loss Over Lease Up Period	\$4,060,254
Expenses Carry Over	\$940,920
Commissions 4%	\$108,273
Additional Risk 12%	\$600,140.88
Total Lease-Up Cost	\$5,709,588
Indicated Market Value as if vacant	\$16,607,349
Rounded to	\$16,600,000

“As If Vacant” Value via Income Approach

---\$16,600,000---

Sixteen Million Six Hundred Thousand Dollars

Sears Distribution Center #8975

Sales Comparison Approach

The *Dictionary of Real Estate Appraisal, Fifth Edition* defines the Sales Comparison Approach as: The process of deriving a value indication for the subject property by comparing similar properties that have recently sold with the property being appraised, identifying appropriate units of comparison and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land, or land being considered as though vacant when an adequate supply of comparable sales is available.

The Sales Comparison Approach applies to the valuation of all types of real property interests as long as there are sufficient transactions to indicate value or market trends. Data on properties recently sold, listed for sale, or under an option agreement; as compared to the appraised property, may provide sufficient information to estimate market value. Reliability of this technique depends on the number of recent transactions, adequate means of verifying the data, degree of similar and absence of non-typical conditions. The procedure to apply the Sales Comparison Approach follows:

- Research the market and verify the information
- Perform and analysis of sales that includes:
 - Selection of relevant units of comparison.
 - Comparison of the comparable sale properties with the subject property.
 - Adjustment (if possible) of the price of each comparable to the subject property.
 - Reconcile the results into a single value indication or a range of possible values.

Sears Distribution Center #8975

Sales Comparison Approach



Sale 1

Location	Lot 18-20, Amelia Industrial, Guaynabo, P.R.	Size in SM BTL Ratio	Two lots 321,908 61.28%
Seller Buyer	Lots 18/20 LLC Amelia Commercial Properties.	Shape Topography Flood Zone	Irregular Level w/sharp taluses X Zone, outside flood hazard
Sales Date Sales Price	August 25, 2017 \$7,000,000	Zoning Highest and Best Use	I-L Light industrial Warehouse
Coordinates	18.41574° -66.12504°	Utilities Condition	All Average
Financing Terms Interest	All cash to seller Leased fee	Sales Verification	Public records and seller
Gross leasable SF Foot Print SF Mezzanine % Sprinkler	140,000 101,450 28% Yes		
\$/Gross Sf \$/Foot Print SF	\$50.00 \$69.00		

Sears Distribution Center #8975

Sales Comparison Approach



Sale 2

Location	Lot 41-33, Amelia Industrial, Guaynabo, P.R.	Size in SM BTL Ratio	25,741 36.22%
Seller	GFR Media LLC	Shape	Irregular
Buyer	Vento Distributors.	Topography	Level w/sharp taluses
Sales Date	August 29, 2016	Flood Zone	X Zone, outside flood hazard
Sales Price	\$6,500,000	Zoning	I-L
Coordinates	18.41574° -66.12004°	Highest and Best Use	Light industrial Warehouse
Financing Terms	All cash to seller	Utilities	All
Interest	Fee simple	Condition	Average
		Sales Verification	Public records and seller
Gross SF	100,347		
Foot Print SF	100,347		
Mezzanine %	No		
Sprinkler	Yes		
\$/Gross Sf	\$64.78		
\$/Foot Print SF	\$64.78		

Sears Distribution Center #8975

Sales Comparison Approach



Building Sale 3

Location	PR-2, Km 15.5 Hato Tejas Ward, Bayamón, P.R.	Lot Area BTL	125,925 SF 63.12%
Seller Buyer	Allied Management Group HB1 LLC	Shape Topography	Rectangular Level and gentle downward slope towards to the north boundary
Sales Price Date of Sale	\$4,100,000 September 29, 2016	Flood Zone	X, outside of flooding
Coordinates	18.405830° -66.194351°	Highest and Best use Utilities	Light Industrial -Commercial All
Financing Terms Interest Conveyed	All cash to seller Fee simple	Condition	Average
Gross Leasable Area Mezzanine Sprinkler	82,000 square feet N/A No	Sales Verification	Public registry and seller representative
\$/Gross SF	\$50.00		

Sears Distribution Center #8975

Sales Comparison Approach



Building Sales Map

Sears Distribution Center #8975

Sales Comparison Approach

Summary of Sales							
No.	Property Name	Gross	Area/SF	B/L Ratio	Sales Date	Sales Price	\$/sf
	Sears	339,400	632,075	53.70%			
1	Lot 18-20 Amelia, Guaynabo	140,000	228,466	61.28%	8/25/2017	\$7,000,000	\$50.00
2	Lot 41-43 Amelia, Guaynabo	100,347	277,076	36.22%	8/29/2026	\$6,500,000	\$64.78
3	Allied Bo. Hato Tejas Bayamom	82,000	125,925	65.12%	9/29/2026	\$4,100,000	\$50.00

Analysis of Sales

This section estimates the market value of the appraised property based on the comparable sales. Market characteristics point to the dollars per square foot of building area as the preferred unit of comparison for this type of real estate. Presented sales are the most recent sales of well-located large warehouse- distribution with functional support utilities, such as electrical substation, telephone lines, potable water, storm, water and sanitary sewer connections.

Sale 1 – Is the most recent sale at Amelia Distribution Center, considered the flagship of the distribution parks in San Juan because of property owners and location. Even though rents at are similar levels with other industrial parks most of the buildings are owner occupied in Amelia which has a strong owner’s association that overlooks the park maintenance and security, characteristics that maintained its appeal.

The site is formed by two independent lots combined as one, of irregular shape with frontage Diana Street. The improvements are two precast and reinforced concrete buildings with a gross area of 140,000 square feet with parking for approximately 100 autos, a very low parking ratio and almost no truck maneuvering, and limited dock access. The site has a unlevelled area along with a hummock formation at its south boundary. The building was mainly designed to meet the printing press requirements of GFR with cargo and trucking operations are at floor level. It has a complicated interior ground floor layout and a high mezzanine office ratio. The property sold with a net lease back arrangement. The property included excellent mechanical systems for the office area, has fire sprinklers and emergency power generator.

Sale 2 - Is also a sale at Amelia Distribution Center. The site is L shaped with frontage to both Diana Street at the north and Frances street to the west. The 15-year-old pre-engineered structure is L shaped, enclosed in metal siding following the site configuration. The building double eave roof height has excellent warehouse clearance with 40’ at the center and 37’ at the sides. The loading dock platform with five roll up doors front Frances Street. A large parking for approximately 200 autos fronts Diana Street, that serves as complementary pay parking for the immediate buildings. The building has minimal amenities, small office area, has fire sprinklers and emergency power generator. The small amount of loading docks limits the distribution capacity of the property. Similar to Sale 1 its south boundary is within the hummock area.

Sears Distribution Center #8975

Sales Comparison Approach

Sale 3 is located at the Hato Tejas ward Bayamon, fronting the north marginal street to PR-2, almost across the Costco store. This area is also known as Corujo Industrial with most the properties fronting PR-2, now supporting retail use. The property is a has a front section retail area of 14,000 square feet leased to Berrios Rent Express (before to American Furniture) and most of the warehouse leased to a paper products distributor whom finally acquired the property. The property has good drive by exposure, with difficult access in only one direction, and lacks of adequate parking for its full commercial development. The property has limited parking to the front store and over 10 loading docks to support the rear warehouse operation, still inferior to the appraised property.

The Appraisal of Real Estate, published by the Appraisal Institute defines comparative analysis as the general term used to identify the process in which quantitative and/or qualitative techniques are applied to derive a value indication in the sales comparison approach. The quantitative analytical technique identifies which elements of comparison require adjustment, measure their amount; and adjust the comparable sales. Very popular in residential appraisals, this procedure results in the most accurate value estimate via the Sales Comparison Approach. For the appraisal of commercial properties, the imperfect nature of this market limits the application of the quantitative analysis due to the difficulty of isolating the elements of comparison and quantifying their effect on value. The alternative is to estimate value using the qualitative technique.

The *Dictionary of Real Estate Appraisal*, defines relative comparison analysis as a qualitative technique for analyzing comparable sales; used to determine if the characteristics of a comparable property are inferior, superior, or equal to those of the subject property. Relative comparison analysis is similar to paired data analysis, but quantitative adjustments are not derived. After applying the quantitative adjustments to the comparables or when the quantitative adjustments cannot be made several forms of qualitative analysis can be applied such as relative comparison, ranking or personal interviews. Individual description of the elements of comparison follows. The comparable sales are measured against the appraised property in each element. The Adjustment Table at the end of this section shows the result of the method.

Real Property Interest Conveyed. Sales 1 and 2 sellers are related companies compelled to reduced their high leveraged position selling some of their properties. At Sale 1 ia sales lease back, with a long term lease established with two companies of the seller. The main lease is for the printing operation a high risk one considering the decline of the printing business. The leases were at negotiated below market rates as the seller needed to continue its business requiring a low rental rate at 20% below the typical Amelia leases. Sale 2 had a short term lease (1 yr.), thus concluded similar. Sale 3 sold for its fee simple, as rents were at market levels, thus similar.

Financing. All sales have typical market transactions, with no adjustments required.

Conditions of Sale. Sales 1 and 2 have an extremely motivated seller caused by their urgency to reduced its financial highly leveraged position, thus set as inferior. Sale 3 has the typical market motivation between sellers and buyers.

Sears Distribution Center #8975

Sales Comparison Approach

Buyers' Expenditures. All sales were in average to good conditions, but required some sort of cleaning and grooming similar to the subject, thus concluded similar.

Market Conditions. The economy has been stagnant for the past years, with new growth potential due to the recovery funds expected for the Island. Occupancies at warehouses started to increase due to short rent leases at better rates, but with the still available vacant this condition has not yet resulted in a higher selling prices. All other sales are concluded similar.

Location. Sales 1, and 2 at Amelia Distribution are considered superior. Sale 3 is at Bayamon is concluded similar.

Building Characteristics. This element of comparison weights the general physical characteristics including quality of construction; condition, height, mezzanine functionality, utilities, and supporting equipment. Sale 1 has an excellent structure but its high mezzanine area, lack of loading dock height floors and limited loading limits its use as a distribution center, thus set as inferior.

Sale 2 has a very good pre-engineered structure that has proven to be resilient to both Georges and Maria Hurricanes, has better height, offsetting its lower count loading docks bays; thus set as similar.

Sale 3 is an old precast structure with good loading docks count, but limited maneuverability for large 53" containers is concluded inferior.

Building Occupancy. Lot coverage is an important characteristic for light industrial high lot coverage can imply lack of trucking and parking space while a very low lot coverage ratio can produce an excess land condition. Sale 1 has a higher percentage, and also impaired by its hummock area, thus set as inferior. Sales 2 has a lower percentage but has unlevelled hummock reducing the usable to a similar percentage as the subject. Sale 3 is inferior.

Sears Distribution Center #8975

Sales Comparison Approach

Sales Comparative Adjustments Grid			
Sale	1	2	3
Price per leasable SF	\$50.00	\$64.78	\$50.00
Real Property Interest	\$10.00	Similar	Similar
Financing.	Similar	Similar	Similar
Conditions of Sale	Inferior	Inferior	Similar
Buyers' Expenditure	Similar	Similar	Similar
Market Conditions	Similar	Similar	Similar
Location	Superior	Superior	Similar
Characteristics	Inferior	Similar	Inferior
Area Site %	Inferior	Similar	Inferior
Total	\$60.00	\$64.78	\$50.00
	Inferior	Similar	Inferior

Value Conclusion

The comparable sales set has three sales. Sale 3 is an inferior property, setting a low value limit. Sales 1 and 2 are highly influenced by the seller's urgency to reduce leverage position. Sale 1 was adjusted for its below market rents. Sale 2 inferior condition of sale is offset by its superior location, setting it as the most similar comparable sale.

Main area 339,400 square feet @ \$65.00 = \$22,061,000

Rounded to \$22,100,000

Market Value by Sales Comparison

---\$22,100,000---

Twenty Two Million One Hundred Thousand Dollars

Sears Distribution Center #8975

Reconciliation

Physical, legal and location aspects of the appraised property indicate that its highest and best use is the current light industrial use including the outlet store operation.

In the income capitalization approach a direct capitalization procedure is developed for the appraised property based on market rents.

Development of the Sales Comparison Approach was based in a set of three sales. The sales were adjusted when possible quantitatively, with the rest of the adjustments done qualitatively. Sears is a combination of a good distribution center with a small supporting outlet store facility. Sales of large storage or distribution centers have been very infrequent in Puerto Rico, with those reported over 10 years ago showing then values commensurable with smaller similar quality warehouses, condition that supports the use of the presented sales. The Sales Comparison Approach best supports the property value conclusion.

The approaches to value report as follows.

Market Values Fee Simple	
Effective Date	March 15, 2019
	"As Is"
Income Approach	\$22,300,000.00
Sales Comparison Approach	\$22,100,000.00
Reconciled Market Value	\$22,100,000.00

The value by Sales Comparison Approach best represents the current behavior of the market participants. The Income Capitalization Approach is speculative although rents and expenses are well related to the distribution and outlet store and operations, but impaired by lease up periods as reported by the as if vacant value. Still the value fee simple indication by this approach supports the concluded value.

Sears Distribution Center #8975

Certificate of the Appraisers

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reports assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I made a drive by inspection of the property that is the subject of this report.
- No one provided real property appraisal assistance to the person signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.



Pedro A. Pons, MAI, SRA
State Certified General Real Estate Appraiser
Certificate No. 24GC
State License No. 91EPA

Sears Distribution Center #8975

Certificate of the Appraisers

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reports assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made personal inspection of the property that is the subject of this report.
- No one provided real property appraisal assistance to the person signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute.



Esteban Lamadrid, MAI
State Certified General Real Estate Appraiser
Certificate No. 186GC
State License No. 713EPA

Sears Distribution Center #8975

Assumptions and Limiting Conditions

This appraisal report has been made with the following general assumptions:

1. No responsibility is assumed for the legal description provided or for matters pertaining to legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them.
7. It is assumed that the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described, and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property.

The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation and other potentially hazardous materials may affect the value

Sears Distribution Center #8975

Assumptions and Limiting Conditions

of the property. The value estimated is predicated on the assumption that there is no such material on or in property that would cause a loss in value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.

This appraisal report has been made with the following general limiting conditions:

1. This is an Appraisal Report format which is intended to comply with the reporting requirements set forth under Standards Rule 2 and 8 of the Uniform Standards of Professional Appraisal Practice for report options. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and building must not be used in conjunction with any other appraisal and are invalid if so used.
3. Possession of this report, or a copy thereof, does not carry with it the right of publication.
4. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
6. The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes with future conditions.

Sears Distribution Center #8975

Qualifications

Pedro A. Pons Mier, MAI, SRA

Business Address	Pons & Lamadrid, Appraisers 1519 Ponce de León Avenue Suite 615, First Bank Building San Juan, Puerto Rico 00909 Telephone: 787-398-0886 Email: pons@ponspr.com
Designations	MAI – Member Appraisal Institute – Certificate No. 7795 SRA – Senior Residential Appraiser – Appraisal Institute
Licenses	Puerto Rico Professional Appraiser, License No. 91 Puerto Rico General Appraiser, Certification No. 24 Florida Certified General Appraiser No. REA RZ 2848 Professional Mechanical Engineer, Lic. 5564 (Retired)
Professional Affiliations	Member of the Appraisal Institute, since 1988 SRA since 1982 South Florida Appraisal Institute Chapter - 1991 to present Member of the American Institute of Real Estate Appraisers 1981 - 1990 Member of Society of Real Estate Appraisers 1972 - 1990 The American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers merged in 1991 to form the Appraisal Institute Member no. 5564, College of Engineers of Puerto Rico
Education	Bachelor Science in Engineering, University of Puerto Rico, 1969 High School, Academia del Perpetuo Socorro
Recent Real Estate Appraisal Courses	The Dirty Dozen – Appraisal Report Requirements – 2018 Appraisal of Assisted Living Facilities – 2018 Florida Law & Regulations - 2018 The FEMA 50% Rule Appraisal - 2017 Florida Law & Regulations - 2016 Basic Hotel Appraising - 2016 Appraisal of Fast Food Facilities - 2016 Redefining Appraisal Roles in an Evolving Banking Environment - 2016 7 Hour USPAP Update - 2016 Business Practices and Ethics - 2016 Leyes y Reglamentos - 2016 Appraising Condos, Co-ops, and PUDs 2014 Application & Interpretation of Simple Linear Regression 2014 2014-2015 National USPAP Update – 2014 Leasehold Valuations for the Appraisal Professional 2013 2012-2013 National USPAP Update 2012 Appraising the Appraisal Review General 2012 Laws and Regulations of PR Appraisal Practice 2011

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Qualifications

The Uniform Appraisal Dataset 2011
 Understanding and Using Investor Surveys Effectively 2011
 National USPAP Update Equivalent 2010-2011
 Florida Supervisor/Trainee Roles and Relationships 2010
 Florida Appraisal Laws and Regulations 2010
 Hotel Appraising-New Techniques for Today's Uncertain Times 2010
 Appraising Distressed Commercial Real Estate: Here We Go 2009
 7 Hour USPAP Course 2008
 Appraisal of Residential Property Foreclosure 2008
 Appraisal Challenges: Declining Markets and Sales Concessions 2008
 Valuation in the Government Sector 2007
 Office Building Valuation: A Contemporary Perspective 2007
 Business Practices and Ethics 2007
 Laws and Regulations – Appraisal Practice in Puerto Rico 2007
 Appraising the Tough Ones 2006
 Appraisal Consulting: A Solutions Approach 2006
 Real Estate Finance, Value and Investment Performance 2006
 USPAP Update 2006
 Florida State Law for Appraisers 2006
 Market Analysis and Site to do Business 2005
 USPAP Course 2005
 Professional's Guide to the Uniform Residential Appraisal Report 2005
 New Technologies for the Real Estate Appraiser 2004
 The Emerging Mark to Market Valuation 2004
 Litigation Appraising: Specialized Topics 2000
 Federal Appraisal Requirements 2000

Continuing Education Status The requirements under the continuing education program of the Appraisal Institute have been met.
 Appraisal Institute Approved Instructor 1990-2002

Professional Experience Principal of Pedro A. Pons, P.S.C., 1999 to present
 Doing business as Pons Fossas Lamadrid and later Pons & Lamadrid, Appraisers
 Independent fee appraiser since January, 1972
 Project Engineer, Sam P. Wallace Co., 1969 to 1972

Residential Appraisal Experience Detached single family units
 Single family condominiums
 Vacant residential lots

Commercial Appraisal Experience Proposed and existing office buildings
 Hospitals and health care institutions
 Proposed and existing shopping centers
 Low income housing involving grants, favorable financing, Rental assistance and tax credits
 Institutional and government properties
 Hotels (proposed and existing)
 Residential subdivisions

Sears Distribution Center #8975

Qualifications

	Residential and commercial condominiums Special purpose properties Condemnation work Appraisal consultant
Major Clients	Banco Bilbao Vizcaya Argentaria Banco de Desarrollo de PR Banco Gubernamental de Fomento para PR Banco Santander de PR Citibank, NA First Bank Federal Deposit Insurance Oriental Bank Scotiabank Departamento de la Vivienda General Services Administration Municipalities of San Juan, Cayey, Dorado, and Mayagüez Puerto Rico Industrial Development Corporation US Bankruptcy Court Puerto Rico National Guard And other clients

Sears Distribution Center #8975

Qualifications

Esteban Lamadrid Pequeño, MAI

Business Address

Pons & Lamadrid, Appraisers
First Federal Savings Building
1519 Ponce de León Avenue, Suite 615
San Juan, PR 00909

Licenses

Certified General Appraiser No. 186
Puerto Rico Professional Appraiser License No. 713
Professional Engineer, License 9243

Professional Affiliations

Colegio de Ingenieros de Puerto Rico, member
Member of Appraisal Institute

Education

Bachelors of Science Industrial Engineering, University of
PR, Mayagüez Campus, 1981
High School, Colegio Marista

Real Estate Courses and Seminars

Hurricane Damaged Economics
Appraisal Institute (May 2018)

Case Studies in Appraising Green Residential Buildings
Appraisal Institute (May 2015)

Commercial Buildings Residential & Commercial
Valuation of Solar
Appraisal Institute (May 2015)

Residential & Commercial Valuation of Solar
Appraisal Institute (April 2015)

Introduction to Green Buildings: Principles and Concepts
Appraisal Institute (April 2015)

General Demonstration Report Writing (Seminar)
Appraisal Institute (Feb 2015)

Marketability Studies: Advanced Considerations &
Applications
Appraisal Institute (Nov 2014)

ARGUS Discounted Cash Flow Valuation
Appraisal Institute (Jan 2013)

Appraising the Appraisal: Appraisal Review General
Appraisal Institute (Oct 2012)

Fundamentals of Separating Real Property, Personal
Property, Intangible Business Assets
Appraisal Institute (Aug 2012)

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Qualifications

Analyzing Tenant Credit Risk and Commercial Lease Analysis
Appraisal Institute (Dec 2011)

The Uniform Appraisal Dataset from Fannie Mae and
Freddie Mac
Appraisal Institute (June 2011)

The Lending World in Crisis-What Clients Need Their
Appraisers to Know
Appraisal Institute (May 2011)

Advance Applications
Appraisal Institute (May 2009)

Appraisal Challenges: Declining markets and Sales
Concessions
Appraisal Institute (August 2008)

REO Appraisal; Appraisal of Residential Property
Foreclosure
Appraisal Institute (August 2008)

Advance Report Writing and Valuation Analysis
Appraisal Institute (August 2005)

The Professional's Guide to the Uniform Residential
Appraisal Report
Appraisal Institute (June 2005)

Cost Approach to Commercial Appraising
Appraisal Institute (March 2005)

Analyzing Distress Real Estate
Appraisal Institute (March 2005)

Detrimental Conditions in Real Estate
Appraisal Institute (December 2004)

Business Practice and Ethics
Appraisal Institute (March 2004)

Subdivision Analysis
Appraisal Institute (November 2001)

Appraisal Consulting
Appraisal Institute (December 1997)

Advanced Sales Comparison & Cost Approach
Appraisal Institute (December 1997)

Environmental Risk and Real Estate Appraisal
Appraisal Institute (September 1997)
Advanced Income

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Qualifications

	Appraisal Institute (August 1996)
	Highest and Best Use Appraisal Institute (June 1996)
	Capitalización de Ingresos Instituto de Evaluadores (June 1996)
	Expropiación Forzosa Instituto de Evaluadores (October 1995)
	Capitalización de Ingresos Instituto de Evaluadores (June 1996)
Machinery and Equipment Courses	ME 201 Introduction to Machinery and Equipment Valuation American Society of Appraisers (June 1994)
	ME 202 Machinery and Equipment Valuation Methodology American Society of Appraisers (November 1994)
	ME 203 Machinery and Equipment Valuation Advanced Topics & Case Studies American Society of Appraisers (January 1995)
	ME 204 Machinery and Equipment Valuation Advanced Topics (June 1996)
Professional Experience	Partner Pons, Fossas & Lamadrid, P.S.C., May 2002 to 2007 Property Appraiser, Pedro A. Pons, January of 1994 to May 2002 Manager industrial and construction retail business 1983 to 1994 Manufacturing engineer, Intel, PR, 1981 to 1983
Residential Appraisal Experience	Detached single family units Single family condominiums
Commercial Appraisal Experience	Machinery and equipment Proposed residential developments Industrial and commercial properties Office buildings (proposed and existing) Hospitals and health care institutions Shopping centers Low income housing involving grants, favorable financing, rental assistance and tax credits Condemnation work Appraisal consultant

Sears Distribution Center #8975

Engagement Letter



March 6, 2019

Mr. Peter Rocque
Korein Tillery Law Practice
St. Louis, MO

Email: procque@koreintillery.com

Re: Real Estate Appraisal Quote –Sears Distribution Center, San Juan, P.R.

Dear Mr. Rocque:

Pursuant to your request, I am pleased to submit a proposal for the appraisal of the Sears Distribution Center located at Road #176, Km 0.5, in the Cupey Ward of San Juan, Puerto Rico. The intended use of the appraisal is to establish the market value of the property, fee simple rights, as of the inspection date for equity analysis. The intended user will be you in representation of your client.

The Appraisal Report will comply with the Uniform Standards of Professional Appraisal Practice and the Code of Ethics of the Appraisal Institute. The report will be completed in four (4) weeks after this proposal is accepted. The appraisal can only be completed by this date if all the necessary and relevant information is received in a timely manner. We have performed work related to the quoted property within the last three years. My fee for the appraisal is [REDACTED]. The fee includes the cost of all expenses incurred in the preparation of the report. The payment is requested at the time of completion.

We will proceed with the preparation of the appraisal upon receipt of your acceptance of this proposal.

Thank you for the opportunity to quote on this work.

Cordially yours,

A handwritten signature in blue ink, appearing to read "Pedro A. Pons".

Pedro A. Pons, MAI, SRA
State Certified General Real Estate Appraiser
Certificate No. 24GC
State License No. 91EPA

Approved by:

Date: 3/8/19

A handwritten signature in blue ink, appearing to read "Robert K. King".

1519 Ponce de León Avenue, FirstBank Building, Suite 615, San Juan, PR 00909
Phone No. 787-398-0886 * email: pons@ponspr.com